

Kao
Sustainability
Data Book

2017

KaO

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Editorial Policy (22, 28, 29, 30, 33)

Editorial policy

- The Kao Group developed the Kao Sustainability Statement in 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 its business activities, and we set the key areas of these activities.
- This data book introduces various activities along with detailed performance data in each of the three key areas of Conservation, Community and Culture.

Scope and boundary of reporting

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

Exceptions to this have been clearly stated in the text.

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

Organizations covered

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

Period covered

Fiscal 2016 (January 1, 2016–December 31, 2016).

Some qualitative information includes those of the activities performed in fiscal 2017.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards are used from fiscal 2016. Per unit of sales in this data book is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

Independent assurance

We have had our reports independently assured since 2003.

KPMG AZSA Sustainability Co., Ltd. provides independent assurance for this data book covering the activities of 2016.

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

Issuing period

Issued on June 29, 2017

Next report scheduled for issue in June 2018

Guidelines referenced

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



CEO Message

Remaining attentive to people's needs as we contribute to the resolution of social issues through our business activities.

Fiscal 2017 marks the start of the Kao Group Mid-term Plan 2020 (K20) (FY2017–2020). Ever since we launched *Kao Sekken* (soap) in 1890 with the aim of promoting greater hygiene and comfort, a major goal of our business activities has been to enrich the lives of people globally. K20 goes further, laying a corporate framework to contribute to the sustainability of the world and to the resolution of social issues, while always remaining attentive to people's needs.

The Paris Agreement and the Sustainable Development Goals (SDGs) present targets for the world to achieve by working together to realize sustainability. The four social issues that the Kao Group will address are the environment, health, aging and hygiene. For the environment, we are reducing environmental impact throughout our product lifecycles based on the Kao Environmental Statement, and collaborating with stakeholders in a wide variety of activities under our "eco together" concept. Regarding health, aging and hygiene, as we provide products and services that help address these issues, we also seek out new opportunities to engage in awareness-raising activities. We will continue to build on these commitments using Kao's combined strengths.

Since our founding, Kao has developed many assets, from research, production and marketing to sales. However, we believe that our most valuable asset is our human capital, which forms the foundation for all of our activities. Committed to helping each employee develop their individual abilities and qualities, we also support the promotion of diversity in the workplace, including gender equality.

At the core of our identity is integrity, a key Value in our corporate philosophy, the Kao Way. Integrity shines through in our lawful, ethical conduct, and our commitment to fair and honest business practices. As a corporate member of the global community, we pledged our support for the United Nations Global Compact of 2005, which defined Ten Principles for human rights, labor, the environment and anti-corruption. Our commitment to integrity will continue to guide our business activities as our global presence grows.

Looking to 2020, we are aiming to transform ourselves to drive change. The Kao Group will continue to address social challenges through our business activities.

Michitaka Sawada

President and Chief Executive Officer
Kao Corporation

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 company-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 February 28, 2017, the number of people confirmed to have vitiligo-like symptoms was 19,600 in total. Settlements have been reached with 16,971 people, and

a total of 703,112 recalled products have been collected. Based on our understanding, 11,921 of the affected people have made a complete or almost complete recovery.

Outside Japan, product recalls are being conducted in 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 recover.

*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 recover completely.

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 to 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 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). Kanebo Cosmetics has contracted Fujita Health University to conduct research and, on July 24, 2016, a research team on Rhododenol-induced vitiligo-like symptoms was established headed by Professor Kayoko Matsunaga. This research team is conducting research on treatments for Rhododenol-induced vitiligo-like symptoms and related issues and is providing information to affected customers and medical practitioners based on its evaluations from a medical perspective.

Web

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

Sympathy and response to vitiligo-like symptoms experienced by some customers of Kanebo Cosmetics products containing the quasi-drug ingredient “Rhododenol”

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 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 and are providing special coverage make-up products that bring the affected areas closer in appearance to the skin's natural color.



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

Expenses for medical treatment and related transportation expenses are paid on an ongoing basis. Compensation for mental and emotional distress, time taken off of work, and permanent effects is paid at the time of settlement and based on internal standards.

Steps to ensure a similar situation does not happen

After the Rhododenol problem was identified, we revised both our safety standards and internal structure.

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. Improving how customer feedback is collected and used

Each time we receive feedback from customers at stores and Customer Care Centers and information from health care providers, we confirm the details of this data and use it in safety inspections. We have also established a system to collect feedback on products from employees in real time. The information gathered through this system is verified by the Quality Improvement Study Meeting, which is attended by members of the Kanebo Cosmetics management team, which also examines corrective actions.

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.

Kao's Approach to Sustainability

(2, 14, 15, 18, 19, 24, 26, 34-37, 42, 43, 45, 48, 56)

In 2013, the Kao Group released the Kao Sustainability Statement to represent its approach to sustainability. 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.

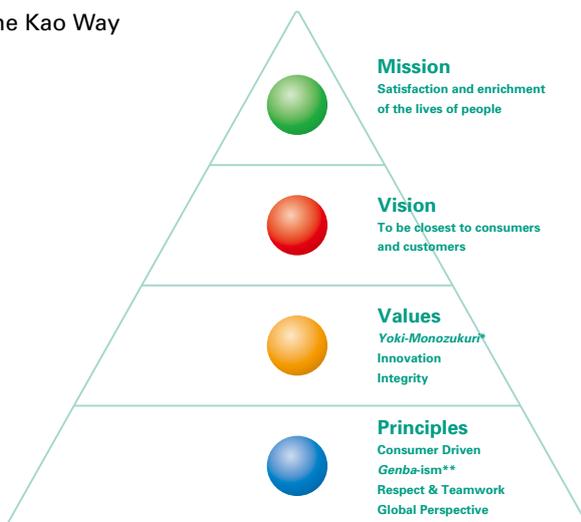
Philosophy Underlying Our Sustainability Activities The Kao Way and the Kao Sustainability Statement

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

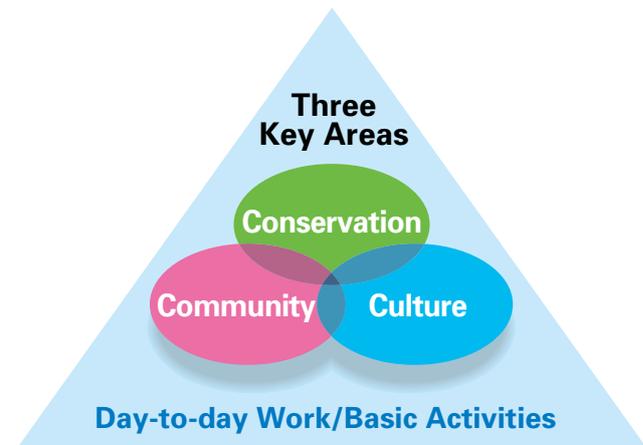
mission, we commit fully to working together to share joy with consumers and customers through products and brands of value, contributing to clean, beautiful and healthy living and, in the chemical business, contributing to the development of industries.

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

The Kao Way



Kao Sustainability Statement



* 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.

→ For details, refer to The Kao Way (corporate philosophy)
<http://www.kao.com/group/en/group/kaoway.html>

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.

Social Issues and Kao's Approach

To more effectively promote contributions to a sustainable society through our business, we must further narrow down what the material issues are for the Kao Group.

1. Our history

In the Kao Sustainability Statement released in 2013, we defined the three key areas of Conservation, Community and Culture. We continue to discuss these areas to further narrow down the issues that we should address based on changes in our internal and external environment as well as changes taking place related to social issues.

2. The situation surrounding Kao

We started the Kao Group Mid-term Plan 2020 (K20) in 2017. K20 clearly presents our goals for making further contributions to resolving social issues in order to achieve our long-term vision.

Meanwhile, major international agreements related to sustainability were reached in 2015, including the Paris Agreement creating a global framework to mitigate climate change and the Sustainable Development Goals (SDGs), which set goals toward resolution of global-scale issues for the global community. Countries around the world have begun a range of initiatives with the aim of achieving these new goals. In Japan, the Corporate Governance Code, which compiles the major rules for realizing effective corporate governance, has been put into force, and the need to engage in sound corporate management is even greater than before.

3. Analysis of the issues

In narrowing down the issues for Kao, we created a list of approximately 70 items based on the social issues presented in various international guidelines and frameworks, including ISO 26000 (Guidance on social responsibility), the GRI (Global Reporting Initiative), and the SDGs. Based on the potential for the Kao Group to contribute to resolving the issue, the effects on our business, and our strengths, we reduced this list to 30 items.

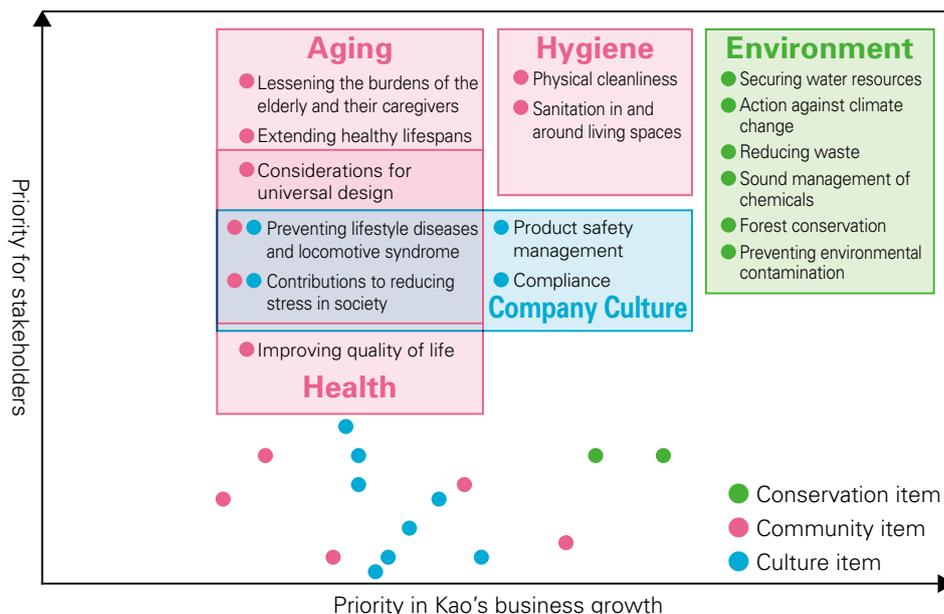
We then held discussions with a broad range of internal divisions and departments including business divisions, Management Strategy, R&D, Procurement, and Sales to organize the items around the axes of 1) priority for stakeholders and 2) priority in Kao's business growth, in the context of business growth and risk management as well as environmental and social considerations.

4. Internal discussions with relevant divisions

Through discussions in the Sustainability Committee and other venues, we identified four social issues that the Kao Group should work to address based on each item in the created matrix, their positioning and internal and external environmental changes. These are: the environment, health, aging and hygiene. We also recognize developing our Company Culture as a priority concern underlying our work to resolve these social issues.

In the Kao Sustainability Statement, the environment corresponds to the key area of Conservation; health, aging and hygiene correspond to the key area of Community; and company culture corresponds to the key area of Culture.

Matrix of Materiality



Contributions to the SDGs through business activities

In 2015, the United Nations General Assembly adopted the Sustainable Development Goals (SDGs), which aim to resolve social issues through initiatives undertaken by the global community. All organizations including companies are asked to work toward the achievement of the 17 goals. The Kao Group intends to contribute to achieving these goals through its sustainability initiatives.

For Goals 3, 5, 6, 12, 13, and 16, which correspond to the key areas of Kao Sustainability Statement, we will clarify the effects on the Kao Group's business activities and what contributions we can make and then undertake initiatives.

Contributions to the SDGs through business activities



Sustainability Promotion Structure

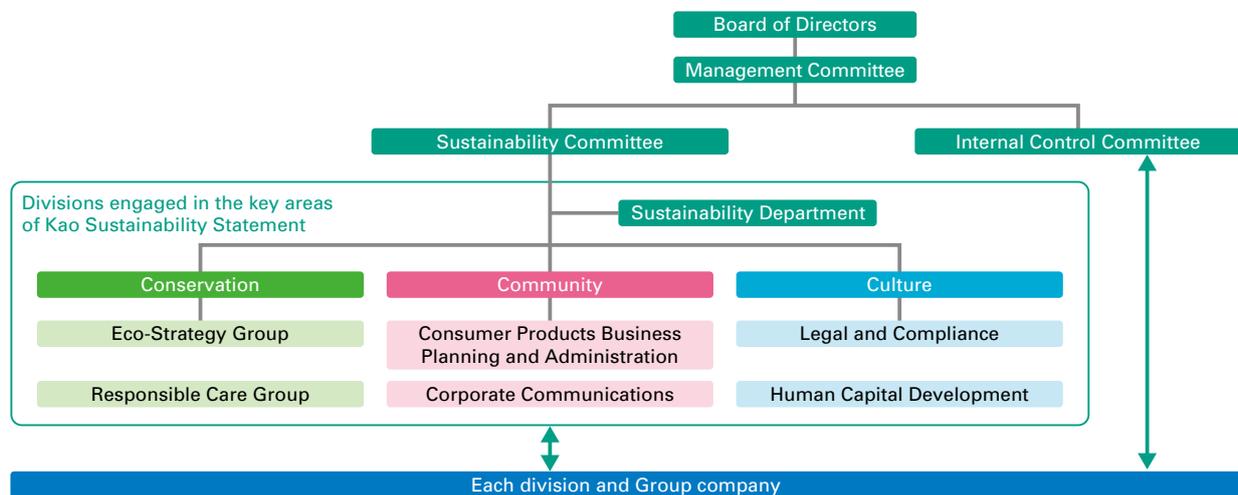
Kao has established the Sustainability Committee, chaired by the President and CEO, to set the direction of the Kao Group's sustainability activities. The Committee sets the promotion structure and formulates and revises the promotion plan as necessary, as well as regularly evaluates the plan to improve the Kao Group's activities as a whole.

The Sustainability Committee met four times in 2016, in January, April, August, and November. In addition to three members who are Representative Directors, the Committee members are Executive Officers in charge of the R&D, Supply

Chain Management, Human Capital, Product Quality Management, International Business Management, Accounting and Finance, Corporate Communications, and Corporate Strategy divisions. They examine the best sustainability policy and strategy for the Kao Group and verify the status of implementing the promotion plan.

The divisions engaged in the three key areas takes responsibility for setting the targets and conducting the PDCA (Plan-Do-Check-Act) cycle to manage activities company-wide.

Structure to promote activities in key areas



Awareness-Raising for Employees

To develop activities based on the Kao Sustainability Statement, all Group members need to fully understand the thinking behind it. We have been conducting educational activities for employees using various approaches since 2013, when we announced the Kao Sustainability Statement.

We have communicated information related to sustainability and our approach on the company intranet system since 2013, and this information has been accessible to all Group companies worldwide since 2015. We are sharing this information to lay the foundation for globally integrated sustainability activities.

Web-based communications

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

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

This information, originally in Japanese, is published simultaneously in English on the intranet for Kao Group companies outside Japan.

Awareness-raising through training programs organized by the Human Capital Division

Employees need to have an understanding of Kao's approach to sustainability as they go about their daily work. Based on this belief, training programs organized by the Human Capital Division include units on sustainability.

From 2014, we have held sustainability sessions in trainings for top management members assigned to global positions. As of 2016, 11 members of management have participated in the one-on-one sessions.

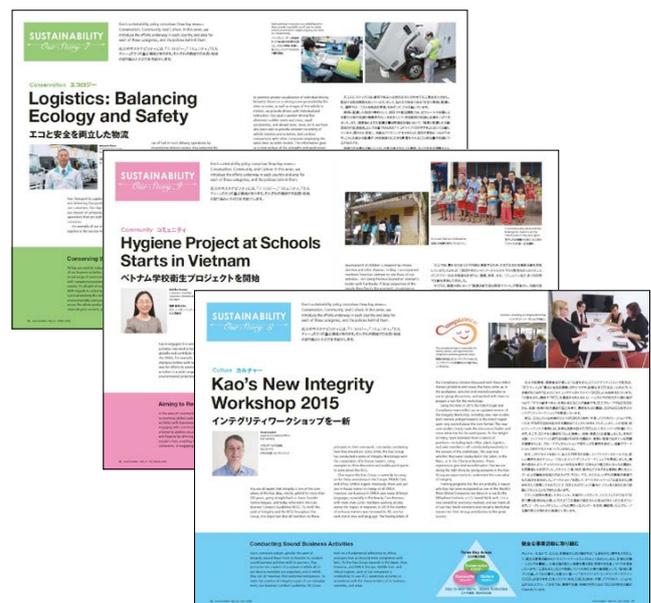
From 2016, we are holding a sustainability session in the new employee training for recent graduates and in the career training programs for employees hired mid-career. A total of 498 employees beginning to work at four Kao Group companies in Japan participated in the session during the new employee training in April 2016. Mid-career hire trainings are held twice a year and had 78 participants in October 2016 and 13 participants in February 2017.

Content covering our approach to sustainability is also included in the global orientation program for employees joining Kao Group companies outside Japan.

Internal publications

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

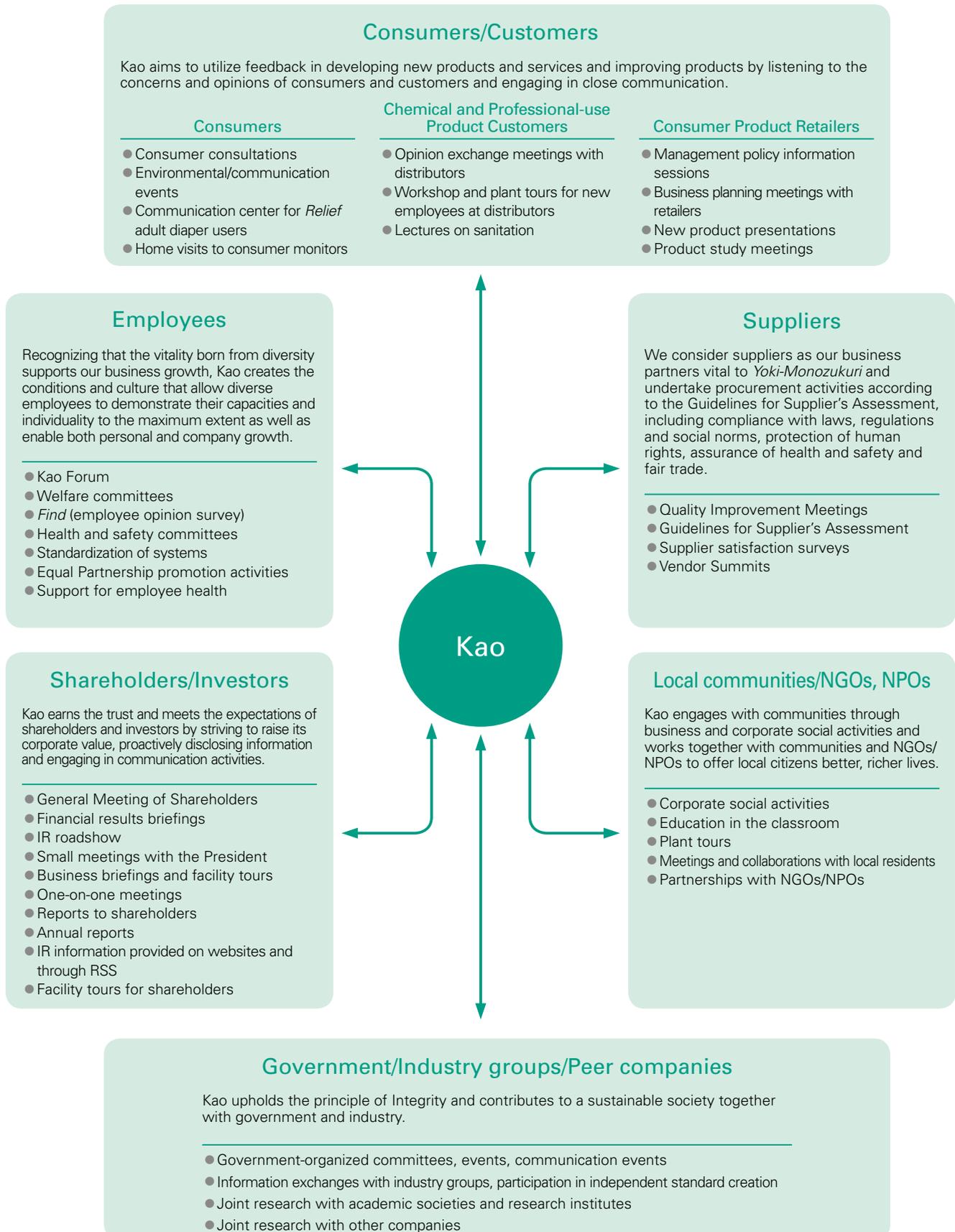
A special feature in the 2013 issue just after the Statement was announced described the background to developing the Statement as well as details of its content. Articles published regularly since 2014 introduce examples of specific activities in the three key areas of focus. The magazine featured articles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



Articles in our in-house magazine *KAO FAMILY*

Stakeholder communication

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





Helping children's development while having fun

Learning hygiene habits for good health

In order for them to grow and develop healthily, it is very important for children to acquire good hygiene habits from an early age. It is especially important for children to wash their hands frequently, because the hands come into contact with all sorts of materials and are used when eating. In places like schools where children are engaged in communal activities, it is very easy for dirt and germs to spread from one person to another via contact between the hands and infected or dirty surfaces. To help tackle this problem, Kao has developed hand soap products that make it easy for even very small children to get the dirt off their hands. Kao is also continuing to implement its program of "visiting lessons" where Kao employees visit schools to help children learn how to wash their hands properly by singing Kao's original hand washing song.

Yoki-Monozukuri aimed at helping children to maintain good hygiene

In the past, when washing their hands with conventional liquid soap, it was difficult for children to get their hands thoroughly clean. In 2004, Kao launched a new type of hand soap equipped with a foaming pump so that foam comes out just by pressing the pump, and which is weakly acidic so that it is gentle on the skin. Since then, Kao has continued to improve this product by introducing a new type of pump design that is easy for children's small hands to use, and by modifying the formulation so that it removes stubborn grease more effectively.

However, despite making this hand soap easy for children to use, Kao's surveys of how children actually wash their hands have shown that most children do not know how to wash their hands thoroughly. In response to these findings, Kao launched and has implemented its hand washing lesson program since 2009 to teach children the correct method for washing their hands.



Even children can easily get foam onto every part of their hands

Learning hygiene habits for good health

Hand washing lessons—Key points

Learning the knack of washing your hands properly through a song

To wash one's hands properly, it is necessary to use soap and spend at least 40 seconds washing every part of the hands, including the palm, the back of the hand, between the fingers, and the wrist. Kao created an original hand washing song with lyrics that cover the six key points to remember when washing your hands. Doing the corresponding actions while singing the song can ensure that the hands get properly washed all over.

This song is being publicized using animated films on the Kao website and posters. The song is used in teaching by schools, social welfare facilities and hospitals to teach many children about proper hand washing.



Learning the six key points while singing the song



Getting the whole class to practice the techniques

Hand washing lessons are aimed at elementary school students in the lower grades; the lessons are taught at around 100 schools every year. During the lessons, first children learn about how important it is to wash your hands, and then they learn the correct method of washing hands by singing the Hand Washing Song. In the practical activity, every child in the class has the whole of their hands covered with a coating material that simulates dirt, and then washes it off. By checking which parts of their hands are still dirty afterwards, the children are able to find out which parts of their hands they tend not to wash properly. Having become expert little hand washers, the children can now teach their family members and other people around them about the correct technique for hand washing.

Besides these lessons, Kao also provides teaching materials so that teachers can strengthen children's awareness of the importance of washing hands properly. Copies of these materials have been distributed to around 10,000 schools, representing roughly half of all elementary schools in Japan.



A practical exercise where children learn the correct actions

Participation by Kao employees as instructors

Several employees from each company and division within the Kao Group always participate in hand washing lessons as instructors. The idea is that, during a period of just 45 minutes, employees must use actual products to give individual instruction to each child and show them how keeping clean can be fun.

The Kao employees who have taken part in hand washing lessons as instructors feel that they get a lot out of the experience, in which they get to see children's smiling faces. They note that providing people with products becomes even more meaningful when they show people how to use those products properly. Participation in the lessons helps employees reflect on what *Yoki-Monozukuri* that is useful to society really means, and on their own role in achieving this. Employees are able to make use of what they have learned through participation in hand washing lessons in their own workplaces.



Children returning to the classroom with clean hands high-five the Kao employees acting as instructors

Hand washing lessons are spreading all over the world

Kao's hand washing lessons are now being held not just in Japan, but also in other countries around the world, including Taiwan, Thailand and Indonesia. In the future, Kao will continue to promote widespread adoption of the hand washing lesson concept, with the aim of helping even more children grow up healthily through good hygiene practices.



Hand washing lessons at an elementary school in Taiwan

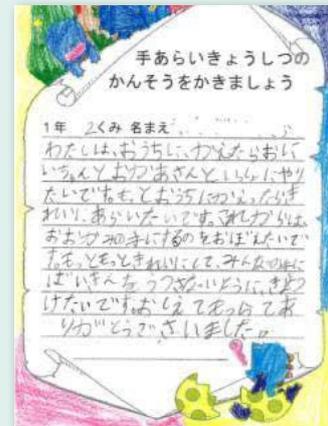
Feedback

Children's feedback

Kao receives letters of thanks and picture diaries from children at schools which Kao employees visited to give hand-washing lessons.

"When I get home, I want to try doing it together with my brother and with Mom. [...] I am going to make sure I keep my hands really clean so I don't transmit any germs to other people's hands."

"We learned how to wash our hands properly. I enjoyed singing the hand washing song. I'm going to remember the song and use it when I get home."



Comments from Kao staff

"We will continue to make improvements to our products to make them easy for children to use, gentle on children's skin, and effective in removing dirt."

"I feel that the value of a product will increase when consumers are correctly informed about its function and how to use it. As I see it, hand washing lessons are a good way of putting this into practice for children."





Aiming to put a smile on children's faces and help them grow and develop

The big spring-cleaning before graduation

In Japan, it is customary for children to help keep their classrooms clean and tidy. Kao provides support for sixth-grade elementary school students throughout Japan who will shortly be graduating from elementary school, helping them express their gratitude to the school where they have spent the past six years and to the teachers and other people who have taught and looked after them, by cleaning the school so that it will remain neat and tidy for future students.

Yoki-Monozukuri that encourages people to look after things properly

In 2014, Kao launched a new cleaning sheet product that makes it easy to remove stubborn dirt like water scale, dried-on soap and dark stains etc. that cannot be removed by ordinary day-to-day cleaning, bringing the shine back to people's houses. The wiper sheets are made with a special fiber that, when wetted and rubbed on dirty surfaces, takes the dirt off, leaving the surface looking like new. As Kao's brand manager for this new product comments, in today's era of material abundance when people tend not to pay much attention to looking after things properly, the act of scrubbing something clean can help to spread the mindset of appreciating what you have.

Using cleaning sheets provided by Kao, sixth-grade elementary school students who are about to graduate undertake a big spring-cleaning of the school that has played such an important part in their lives.



The cleaning sheet gets things shining like new

The big spring-cleaning before graduation

The big spring-cleaning before graduation—Key points

Rubbing the dirt away while thinking back on six years at school

This activity is carried out in March every year, with students spending 90 minutes on a big spring cleaning of their school. Wiper sheets are distributed to every student, and the students are told which area in the school it will be their responsibility to clean. Working in small groups, the students use the wiper sheets to get everything sparklingly clean, getting rid of dirt that had accumulated unnoticed during their daily school life, such as water scale on taps and sinks, and stubborn dirt on sash windows, lockers, doors, etc.

Having spent as many as six years at the school, the students have accumulated a great many memories of the place. The act of cleaning the classrooms, the science lab, the home ec room, etc., which have been touched by so many hands, and where they have learned so many things, is sure to bring back memory after memory for the students.

When the big spring-cleaning is finished, the children have proud smiles on their faces as they stand in their sparklingly clean school.



The fun of scrubbing things clean puts a smile on the children's faces

Cleaning classrooms as a way to say "Thanks!"

The purpose of this activity is more than just to remove dirt from the schools.

The activity also provides an opportunity for students to feel and express their gratitude to the school where so many things happened over their time there, and to the teachers and other people who have watched over them as they grew and developed. It also represents an opportunity for children to become more aware of their role as members of society, as they leave behind them a pristine school for the future students who will be spending each day there.



The activity helps the children express their gratitude to the school

Aiming to put smiles on children's faces and help them grow and develop

In the future, Kao will continue to work actively to show children how important and fun it is to keep things clean, and will be providing support to put smiles on children's faces and help them grow and develop.

Feedback**Comments from a school principal**

Professor Kazunori Kawai, Principal of Kaname Elementary School, Toshima Ward, Tokyo

Our school implemented this activity for the first time in 2016. I felt that this process of cleaning and reflecting provided a marvelous opportunity to get the children thinking about things from the perspective of the people who will be using them in the future, and for inspiring a sense of gratitude in the children for the things and places that they have been using all this time, and the people who have watched over them. I intend to keep holding this activity at our school as a regular pre-graduation activity every year.

**Comments from Kao staff**

"Having launched this activity in 2016 at 135 schools, by March 2017 this figure had grown to 741 schools. We will continue to work to promote this activity."

"One of the great things about our cleaning sheets is that people can actually see for themselves that the sheets get things properly clean, so they can really experience the pleasure of cleaning. We want to see children enjoying themselves while they are cleaning."



Major sustainability indicators

Key area: Conservation

Materiality	Vision	Items	Results					Targets		SDGs*7
			2012	2013	2014	2015	2016	2017	2020	
Conservation	Minimize environmental impact through our business activities and contribute to environmental sustainability									
	Reduction rate for CO ₂ emissions*1									
	Scope 1 and 2	-21%	-27%	-28%	-29%	-30%	-31%	-35%	12,13	
	Consumer products, across the lifecycle	-10%	-14%	-15%	-17%	-14%	—	—		
	Consumer products in Japan, across the lifecycle	-17%	-18%	-16%	-17%	-16%	—	-35%		
	Reduction rate for water usage*1									
	All Kao Group plants and offices	-29%	-33%	-38%	-43%	-42%	-38%	-40%	6,12	
	Consumer products, across the lifecycle	-15%	-16%	-18%	-21%	-17%	—	—		
	Consumer products in Japan, during product use	-20%	-22%	-22%	-24%	-22%	—	-30%		
	Reduction rate for waste production*1									
	All Kao Group plants and offices	-24%	-28%	-27%	-27%	-25%	-31%	-33%	12	
	Percentage of sales from products displaying the "eco together" logo*2	23%	25%	27%	28%	29%	—	—	6,9,12,13	
	Procurement of sustainable palm oil*3	—	—	—	PKO*3 Achieved traceability to the mills*4	PKO In the process of establishing traceability to the mills	PO*3 Traceability to the mills	Traceability to the plantations	15	
Procurement rate for sustainable paper and pulp*5	—	—	—	96%	99%	—	100%	15		
Promote further environmental activities by engaging in environmental communication with society										
Cumulative number of participants in environmental communication*6 (thousands of people)	—	—	240	460	650	820	1,000	12		
Aim to contribute to the realization of a sustainable society by promoting sound chemical management through Strategic Approach to International Chemicals Management (SAICM) activities										
Number of released safety summaries for Kao priority risk assessment substances	—	—	—	7 (Total 7)	3 (Total 10)	3 (Total 13)	Total 20	3,12		
Number of released GPS safety summaries for chemical products	12 (Total 12)	18 (Total 30)	47 (Total 77)	12 (Total 89)	18 (Total 107)	16 (Total 123)	Total 150	3,12		

*1 Per unit (of sales), relative to FY2005

*2 Consumer products in Japan; sales rate of products that meet the criteria for "eco together" certification

*3 Progress of activities to trace the palm oil used by the Kao Group back to the plantation; PKO: palm kernel oil, PO: palm oil

*4 As of the end of 2015, we were unable to establish the traceability of some of the derivatives that we had no choice but to purchase from other companies.

*5 Procurement rate of recycled and sustainable paper and pulp, packaging materials, and office paper used by the Kao Group

*6 Cumulative number of participants in educational programs, factory tours, environmental events, etc., since 2014

*7 The goals to which the Kao Group can contribute among 17 Sustainable Development Goals

Major sustainability indicators

Key area: Community

Materiality	Vision	Items	Results					Targets		SDGs
			2012	2013	2014	2015	2016	2017	2020	
Health	Improve and prevent obesity and lifestyle diseases by contributing to the creation of a society conducive to a healthy life	Number of participants in health educational programs*8 (thousands of people)	—	—	1,610	2,600	2,310	2,900	5,200	3
		Number of participants in the educational programs of hygiene habits*9 (thousands of people)	—	—	6,120	7,540	7,640	10,000	12,000	3, 6, 12
Aging	Support the lifestyles of the elderly by contributing to the creation of a society conducive to healthy aging, both mentally and physically	Cumulative number of the products improved with Universal Design consideration*10	420	1,303	2,066	2,876	3,585	—	—	12
		Implementation rate of improvements with Universal Design consideration*10	41%	79%	80%	91%	71%	—	—	
		Engage in social activities with local communities to contribute to an improved quality of life	Number of times information was provided to employees regarding volunteer activities	—	126	79	71	67	70	80
Educational activities for external parties provided through transmitted information	—	100	71	99	59	60	80			

*8 Number of participants in walking events and events for measuring visceral fat; QUPiO users
QUPiO: A program aimed at providing support for health promotion and preventive, lifestyle improvement measures based on knowledge obtained from joint research undertaken with the University of Tokyo using a database of health checkup data for one million people that covers an extended period of time

*9 Number of participants in the educational programs for infant care, hand and hair washing, laundry and cleaning, and menstrual hygiene (including the delivery of educational samples and tools) in Japan and the rest of Asia

*10 Products improved with Universal Design considerations represent products improved from considerations including accessibility, safety, and usability. The implementation rate of improvements is the percentage of products improved with Universal Design considerations among all new and improved product items. The data until 2015 covers Japan, and since 2016 we have included Japan and the Americas.

Key area: Culture

Materiality	Vision	Items	Results					Targets		SDGs
			2012	2013	2014	2015	2016	2017	2020	
Integrity	Instillment of Integrity throughout the entire Kao Group	BCG test rate	70.0%	86.5%	87.2%	96.4%	97.5%	100%	100%	16
		Number of serious compliance violations*11	0	0	0	0	0	0	0	
Diversity and inclusion	Maximize employee potential by diversity and inclusion	Percentage of female managers	23.6%	27.7%	27.6%	27.5%	25.4%*12	—	30%*13	5
		Percentage of female managers (Japan)	9.6%	10.5%	10.1%	10.4%	13.1%*12	—	15%*13	5
		Cumulative attendance rate for manager training on diversity and increasing management capabilities	—	—	—	—	8.2%	100%	200%*14	10
Employee health and safe workplaces	Improvement of health literacy and safety awareness among employees	Total participants for health promotion programs	—	—	—	—	31,885	32,900	35,900	8
		Lost time accident frequency rate*15	1.55*16	0.74*16	0.54	0.61	0.67	Less than 0.26	Less than 0.10	8

*11 Serious compliance violations relating to the Kao Group's operations are internally defined and managed within the Kao Group.

*12 The definition of "manager" was revised in 2016 following the promotion of integrated Group management.

*13 Not established as targets for 2020, but targets to be quickly realized as future milestones

*14 Cumulative attendance rate for manager training since 2016

*15 Number of persons dead or seriously injured in occupational accidents per million hours worked (including only accidents involving at least one lost work day and also the loss of a part of the body or a bodily function)

*16 Global production and R&D divisions

2016 Activities

Conservation p.21

Community p.74

Culture p.109

Governance p.159

Responsible Care Activities p.183

External evaluation p.189

Independent assurance report p.191

GRI/ISO 26000 content index p.192

Survey indexes p.203

Kao's initiatives for the environment (DMA, LA10, PR3)

Kao's approach

To enrich people's lives and contribute to the sustainability of the world through *Yoki-Monozukuri*, Kao gives due consideration to environmental conservation and human safety in all the stages of raw materials procurement, development, manufacturing, sales, distribution, use, disposal and recycling.

Social issues and Kao's approach

The world's population is currently more than 7 billion, and is expected to reach approximately 9 billion in 2050 with a higher concentration of people living in urban areas.

The amount of energy consumed globally is expected to continue rising along with population and economic growth. Already, human activities such as energy consumption and deforestation have caused the concentration of CO₂ in the atmosphere to rise sharply over pre-industrial levels, resulting in climate change that is beginning to have global-scale impacts. Additionally, all organisms need water to survive, but pollution, regional and seasonal water shortages and other problems are emerging hand in hand with the increasing population and population density.

Therefore, Kao is promoting "eco together" activities with various stakeholders comprised of consumers, business partners and society. The activities include initiatives to reduce CO₂ emissions and water usage across the product lifecycle,

from raw materials procurement to development, manufacturing, sales, distribution, use, disposal and recycling.

We are also promoting environmental management that pursues harmony with nature while fulfilling our responsibility as a company that handles chemical substances.

Meanwhile, we use many natural resources including palm oil and pulp as raw materials, and are able to conduct business thanks to the benefits of biodiversity. We strive to reduce the impacts of our business activities on biodiversity and conserve biodiversity in social activities as well.

Based on this approach, we recognize the four areas of CO₂ emissions, water, chemical substances and biodiversity as our critical environmental issues. With our mission of contributing to "the wholehearted satisfaction and enrichment of the lives of people globally," we are promoting manufacturing based on reduced environmental impact as our mid- to long-term management strategy.

Policies

We have established our basic philosophy and basic policies on the environment, and released the Kao Environmental Statement, which presents how we implement the Statement across the product lifecycle with various stakeholders. We have also defined policies on environmental conservation in the Kao Responsible Care Policy and are conducting activities accordingly.

In addition, we are utilizing numerous management resources in various countries to ensure compliance with laws and regulations, especially related to wastewater and waste.

Design for Environment guidelines

We have created the Design for Environment (DfE) guidelines to evaluate safety and impacts on the environment that should be taken into consideration. When deciding to release new and improved products, we conduct checks based on these guidelines with the aim of reducing environmental impact and improving product function and performance. The guidelines strictly quantify CO₂ emissions across the product lifecycle and evaluate the improvement rate of the new or improved product against existing "standard" products.

"eco together" logo display standards

In addition, we display the "eco together" logo on products that have minimal environmental impact, meaning that they meet our independent rigorous certification standards of reduced lifecycle CO₂ emissions compared with comparable standard products and clear at least one of the certification criteria that we have set.

- ➔ Basic Philosophy and Policies on the Environment and Safety
http://www.kao.com/jp/en/corp_csr/eco_activities_03_03.html
- ➔ Kao Environmental Statement
http://www.kao.com/jp/en/corp_csr/eco_activities_03.html
- ➔ Kao Responsible Care Policy
http://www.kao.com/jp/en/corp_csr/eco_activities_05_00.html
- ➔ Design for Environment guidelines
http://www.kao.com/jp/en/corp_csr/eco_activities_01_02.html
- ➔ "eco together" logo display standards
http://www.kao.com/jp/en/corp_csr/eco_activities_01_07.html

Structures

The Kao Responsible Care (RC) Policy and the promotion structure and activities can be found on the following page.

→p. 183 Responsible Care Activities

Education and promotion

Kao's environmental initiatives are defined in the Kao Business Conduct Guidelines (BCG), and their educational plan and results are the same as outlined in the BCG.

Kao regularly provides education on the Kao Environmental Statement in group trainings for new employees and in trainings held according to employee rank. Head Office departments used the Kao Environmental Statement in trainings 15 times for 462 participants in 2016.

Under the RC promotion structure, the Kao RC Promotion Committee secretariat and staff in promoting divisions conducted educational activities for employees and employees

at partner companies as needed. The Kao RC Promotion Committee secretariat held educational activities 46 times for a total of 622 participants (22 times in Japan for 468 participants, 24 times outside Japan for 154 participants).

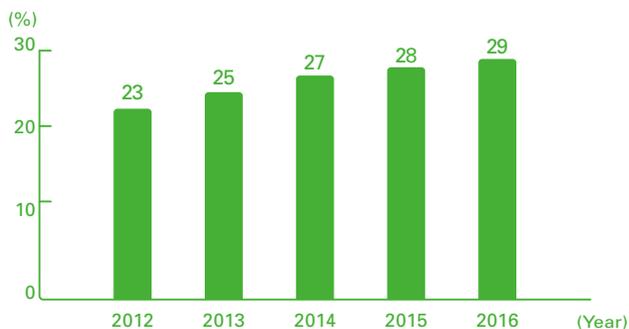
Sites that have introduced ISO 14001 and other environmental management systems provide training to all employees including new employees and transferred employees at least once a year.

→p. 113 Culture > Integrity

2016 results

Products with little environmental impact that have cleared our original rigorous certification standards display the "eco together" logo.

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



→"eco together" logo display standards

http://www.kao.com/jp/en/corp_csr/eco_activities_01_07.html

→List of products displaying the "eco together" logo

http://www.kao.com/jp/corp_csr/eco_activities_01_02.html (Japanese)

CDP evaluation:

- Climate change : A-
- Water : A
- Forests (Timber) : A-
- (Palm oil) : A-
- Supply chain engagement : A-

*CDP

CDP is a London-based NPO operated by institutional investors that motivates companies to disclose information related to climate change, water and forests.

Collaboration with stakeholders

Kao is promoting "eco together" activities with various stakeholders including consumers across the product cycle encompassing raw materials procurement, development, manufacturing, sales, distribution, use, disposal and recycling.

→p. 23 Conservation > CO₂

→p. 67 Conservation > Environmental communication

CO₂ (DMA, EC2, EN3, EN5-EN7, EN15-19, EN27, EN30, EN33)

Kao's approach

The Paris Agreement reached in 2015 sets the long-term international goal of keeping the global rise in temperature to below 2°C, and to drive efforts to limit the temperature increase even further to 1.5°C, above pre-industrial levels. Looking to realize a low-carbon society, and beyond this a post-carbon society, Kao is conducting activities together with customers and business partners across the product lifecycle.

Social issues and Kao's approach

The Fifth Assessment Report by the Intergovernmental Panel on Climate Change (IPCC) states that global warming is occurring with certainty, and that it is extremely likely that human activity is the predominant cause of climate change.

Kao recognizes the risks associated with climate change as a critical management issue. We also recognize that there are business opportunities associated with mitigating climate change by curbing greenhouse gas emissions and adapting by responding to climate change.

Risks and opportunities from regulations

Some national and regional regulations and public policies impact company business activities, including energy-efficiency standards, taxes on carbon and emissions trading systems. Others directly impact products, including the carbon footprint of the product to be displayed in labeling. We consider these types of regulations and policies themselves to be a risk to our business continuity and growth.

To comply with these regulations, we are expanding our business through various activities conducted by the Group companies in each country and region, including proposing products that contribute to energy-saving. We are also introducing a system to calculate the environmental impact of our products.

Risks and opportunities from physical impacts

The effects of climate change are emerging. These include longer periods of high temperatures during summer due to global warming, and more intense typhoons and hurricanes and

extremes in rainfall due to climate change. Adapting to these changes in nature and the resulting unavoidable disasters represent risks to our business operations.

Meanwhile, we also believe that physical impacts are associated with multiple opportunities. For example, longer periods of high temperatures during summer and extremes in rainfall mean higher demand for products consumed when it is hot and water-saving products. In this way, we aim to expand business by offering products in countries and regions to meet these emerging needs.

Other risks and opportunities

Insufficient efforts to mitigate climate change could be a risk to business continuity and growth. This risk encompasses such aspects as difficulty in entering markets for environmentally friendly products and inability to gain the trust of various stakeholders.

On the other hand, continuously offering higher value environmentally friendly products and expanding the market facilitates business expansion. Proactive information disclosure leads to increased trust from various stakeholders and contributes to business expansion in the medium and long term.

Therefore, Kao is promoting CO₂ emission reductions throughout the product lifecycle and working to contribute to the Sustainable Development Goals (SDGs), specifically Goal 7: "Ensure access to affordable, reliable, sustainable and modern energy for all," and Goal 13: "Take urgent action to combat climate change and its impacts."

Policies

The ratio of CO₂ emissions at each stage of the Kao product lifecycle calculated based on the ISO 14040 series (Life Cycle Assessment (LCA) standards) is as follows.

Ratio of CO₂ emissions at each stage of the Kao product lifecycle



Looking at a breakdown of the CO₂ emissions, much more CO₂ is generated from other stages than from Kao’s direct activities in development, manufacturing, sales and distribution. Therefore, to reduce CO₂ emissions at these other stages as well as to reduce emissions from our own activities, we are conducting “eco together” activities with various stakeholders comprised of consumers, business partners and society.

In the development stage, we recognize that product design heavily influences the environmental impacts of the entire product lifecycle. We have created the Design for Environment (DfE) guidelines to identify the impacts on the environment that should be taken into consideration in design and have established methods to quantify environmental impact calculations in the product lifecycle. We are evaluating the improvement rate comparing CO₂ emissions for the entire product lifecycle for existing standard products and newly developed products to reduce the environmental impacts of our

products.

In the manufacturing and sales stages, we are conducting activities to 1) reduce the amount of energy consumed, 2) use cleaner energy, and 3) reduce leaks of greenhouse gases such as refrigerants.

In the distribution stage, we are conducting activities to 1) increase shipment volumes per shipment (improving the loading efficiency, increasing the size of shipping vehicles), 2) shortening shipping distances, and 3) using cleaner modes of transportation.

In the use stage, we are developing and offering products that contribute to saving water and electricity.

In the raw materials procurement, disposal and recycling stages, we are working with suppliers in various ways to use renewable raw materials, recycled materials and fewer resources.

Structures

Managing divisions and relevant stakeholders by product lifecycle stage

Product lifecycle stage	Managing divisions at Kao	Relevant stakeholders
Raw materials procurement	R&D Division Purchasing Division	Suppliers Contract manufacturers
Development/Manufacturing/Sales	Marketing Division R&D Division SCM Division Sales Division	Local communities Retailers
Distribution	SCM Division Logistics Division	Shipping companies Retailers
Use	R&D Division	Consumers
Disposal/Recycling	R&D Division	Social systems

CO₂ emissions across the entire product lifecycle are managed under the Responsible Care promotion system.

The SCM Division, which oversees plants with large Scope 1 and 2 emissions, holds energy-efficiency working group meetings twice a year comprising staff in charge of energy efficiency at all plants. The working group considers topics such as progress management for energy-efficiency activities at plants as well as reviews and in-house development of new technologies and introduced technologies.

Mid- to long-term targets

Targets for energy and greenhouse gas emissions

Index	Scope	2016 targets	2017 targets	2020 targets
Energy consumption	Kao Group All sites	31% reduction	32% reduction	35% reduction
GHG emissions		30% reduction	31% reduction	35% reduction
CO ₂ emissions	Kao Group in Japan Entire consumer product lifecycle	—	—	35% reduction

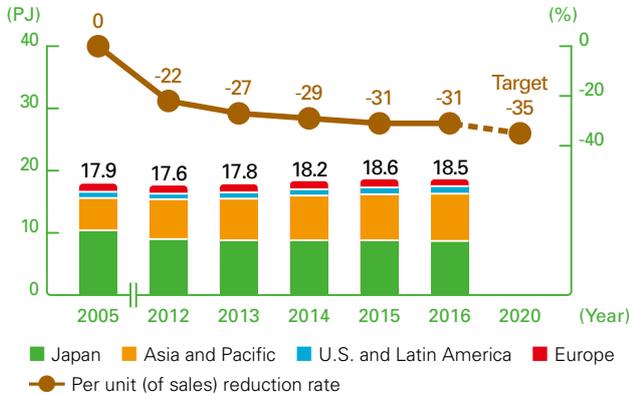
*Per unit of sales (2005 baseline)

We set the 2020 reduction targets for energy consumption and greenhouse gas emissions pertaining to all Kao Group sites in 2013 and have aimed to achieve at least a 1% reduction each year.

We set the 2020 reduction targets for CO₂ emissions pertaining to the entire product lifecycle for the Kao Group in Japan in 2009, based on the national reduction targets set by the Japanese government at the time.

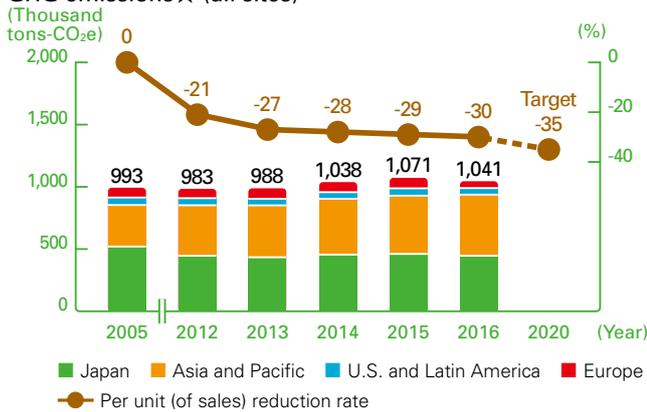
2016 results

Energy consumption★ (all sites)



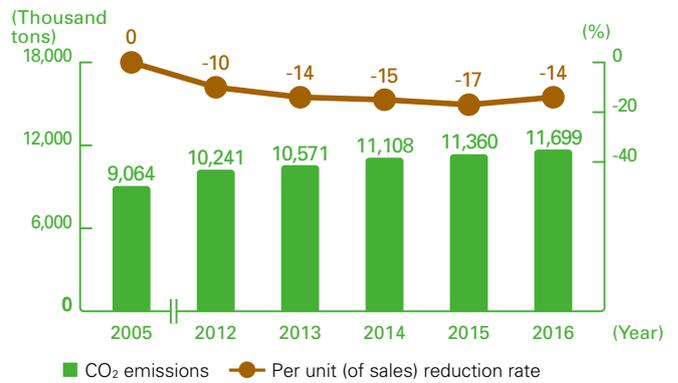
- * Boundary: All Kao Group worksites including company cars
- * Assurance provided for energy consumption figures.
- * Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

GHG emissions★ (all sites)



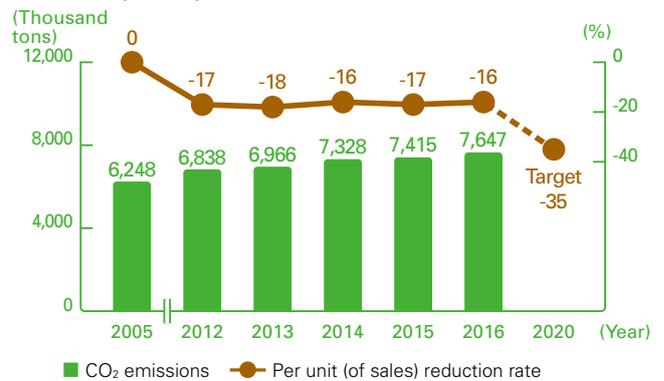
- * Boundary: All Kao Group worksites including company cars
- * Gases included: The seven GHGs specified by the Kyoto Protocol (only CO₂ for sites outside Japan)
- * Assurance provided for GHG emissions figures.
- * Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

CO₂ emissions across the entire product lifecycle★ (Kao Group)



- * Calculated mainly by summing the lifecycle CO₂ emissions of consumer products sold globally. Lifecycle CO₂ emissions of each product is obtained by multiplying the unit emission by the annual sales number of the product. Among the lifecycle, the estimated emissions from manufacturing and logistics processes are substituted by the actual emissions from these processes. Emissions from use and disposal processes of industrial products are not included.
- * Assurance provided for CO₂ emissions figures and per unit (of sales) reduction rates.
- * Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

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



- * Calculated by summing the lifecycle CO₂ emissions of consumer and industrial products sold in Japan. Lifecycle CO₂ emissions of each product is obtained by multiplying the unit emission by the annual sales number of the product. Among the lifecycle, the estimated emissions from manufacturing and logistics processes are substituted by the actual emissions from these processes. Emissions from use and disposal processes of industrial products are not included.
- * Assurance provided for CO₂ emissions figures and per unit (of sales) reduction rates.
- * Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.
- * Some data have been revised, and figures for 2013–2014 have been changed.

Scope 1 CO₂ emission volume trends★ (Thousand tons-CO₂e)

	2014	2015	2016
Japan	283	276	272
Asia	277	286	291
U.S. and Latin America	33	37	39
Europe	64	68	47
Total	658	667	649

Scope 2 CO₂ emission volume trends★ (Thousand tons-CO₂e)

	2014	2015	2016
Japan	171	185	169
Asia	172	181	200
U.S. and Latin America	19	22	14 ^{*1}
Europe	17	17	8
Total	379	405	391

* Emission volumes by scope conform to the Greenhouse Gas Protocol initiative

Scope 1: GHG emissions emitted directly by the company/organization

Scope 2: Indirect GHG emissions from purchased electricity, heat, etc.

* Emission factors

Scope 1: In principle, uses factors defined in the Act on Promotion of Global Warming Countermeasures.

Scope 2: In principle, uses the specific factors of the country's laws or regulations. When the specific factor cannot be obtained, the country-based factor released by the International Energy Agency (IEA) is used.

*1 Figure for 2016 is affected by the revised electricity emission factor (year-on-year reduction of 9 thousand tons-CO₂e).

Purchase volume trends for electricity, steam, etc. (TJ)

	2014	2015	2016
Electricity	6,967	7,447	7,272
Heat	0	0	0
Steam	66	88	132
Cooling	0	0	0

* Electricity is calculated as the calorific value of the primary energy (at the receiving end in Japan, generating end outside Japan).

Consumption volume trends by fuel type (TJ)

	2014	2015	2016
Natural gas	9,187	9,204	8,915
Diesel oil	1,138	1,282	1,375
Gasoline	163	153	162
Other	274	123	111
Waste vegetable oil (heat recovery)	633	555	517

Scope 3 emission volume trends (Thousand tons-CO₂e)

	2014	2015	2016
1. Purchased goods and services ^{*1} ★	1,949	2,037	4,134
2. Capital goods	206	252	262
3. Fuel- and energy-related activities (not included in scope 1 or scope 2)	25	27	22
4. Upstream transportation and distribution ^{*1} ★	92	95	242
5. Waste generated in operations	22	24	47
6. Business travel	4	4	4
7. Employee commuting	13	13	18
8. Upstream leased assets	0	0	0
9. Downstream transportation and distribution	54	59	94
10. Processing of sold products	123	100	113
11. Use of sold products ^{*1} ★	3,767	3,715	4,965
12. End-of-life treatment of sold products ^{*1} ★	1,071	1,106	1,317
13. Downstream leased assets	0	0	0
14. Franchises	0	0	0
15. Investments	8	8	7
Total	7,345	7,450	11,225

* Kao focuses on the categories of 1, 3, 4, 5, 11 and 12 related to site activities to save energy and reduce waste materials, as well as on the product lifecycle.

*1 The boundary was extended from the Kao Group in Japan to the Kao Group for Scope 3 emissions in 2016.

CO₂ emissions across the product lifecycle increased by 339 thousand tons-CO₂e over the previous year, and the per unit (of sales) reduction rate deteriorated by 3 points to 14% (2005 baseline). Lifecycle CO₂ emissions of consumer products in Japan increased by 232 thousand tons-CO₂e over the previous year, and the per unit (of sales) reduction rate deteriorated by 1 point to 16% (2005 baseline).

Per unit energy consumption at all Kao Group sites decreased by 31% from the baseline, the same as the previous year, and per unit greenhouse gas emissions decreased by 30%, an improvement of 1 point. We achieved the 2016 reduction targets of 31% and 30%, respectively.

Collaboration with stakeholders

- The Green Value Chain Platform operated by the Japanese Ministry of the Environment provides cases of efforts to calculate supply chain emissions for companies beginning these calculations to use as guidelines.
 - We are a member of the LCA Working Group organized by the Japan Chemical Industrial Association (JCIA), which is a member of the International Council of Chemical Associations (ICCA). We provide cases of contributing to emissions reductions at Kao based on carbon lifecycle analysis (c-LCA) and conduct activities corresponding to moves by global chemical industry associations, as well as build successful cases at other companies into our own activities.
 - We are participating in the supply chain program conducted by the CDP. Using the CDP platform, we request reports of activities related to climate change from Kao suppliers and strive to acquire the management methods of progressive global suppliers.
 - In the field of packaging, we are conducting joint development of next-generation packaging together with multiple suppliers.
 - Efforts at the distribution stage
- ➔For details, refer to "Specific initiatives: Efforts in distribution"

Specific initiatives

Efforts in raw materials procurement

Suppliers

Contract manufacturers

Global

- We adjust the delivery volumes and frequency of raw materials as necessary to reduce CO₂ emissions from raw materials shipments from suppliers.
- We are developing products in cooperation with many suppliers to lower the load in the raw materials procurement stage. For example, in the packaging field, these efforts include the active use of packaging containing renewable and recycled resin and having more products adopt thinner corrugated cardboard packaging.
- We continue to pursue higher precision in the CO₂ data of

the raw materials we use by having suppliers calculate the CO₂ emissions of their products for Kao so that they can accurately assess their emission reduction activities.

- With the primary objective of promoting efforts to combat climate change by our suppliers, we became the first Japanese company to participate in the CDP supply chain program in 2009. We are asking our suppliers to disclose information on and reduce their greenhouse gas emissions.

→p. 123 Culture > Sustainable and responsible procurement

Efforts in development, manufacturing and sales

Local communities

Retailers

Global

Efforts in the development stage

More than 10 times the volume of CO₂ emissions from products is emitted in the processes of raw materials procurement, transportation, use, disposal and recycling than is emitted in production processes. Kao therefore recognizes the importance of product design to reduce environmental impact. When a product launch is decided, we evaluate the product's environmental impact, including CO₂ emissions across the entire product lifecycle, based on the Design for Environment (DfE) guidelines.

In addition, we display the "eco together" logo on products that have little environmental impact, meaning that they meet our original rigorous certification standards of reduced lifecycle CO₂ emissions compared with comparable standard products and clear at least one of the certification criteria for environmental features. One example of a product that has greatly reduced its lifecycle CO₂ emissions over the standard product is *Humming Neo* fabric softener.

Example of product with reduced CO₂ emissions in the product lifecycle



(left) *Humming Neo*
(right) *Humming Floral Bouquet Scent*
⇒ Reduces lifecycle CO₂ emissions per use by approximately 47%

Efforts in manufacturing (plants, offices, Logistics Centers)

1. Efforts to reduce the amount of energy consumed Introduction of high-efficiency equipment, efficient operation of equipment

Continuing from last year, many Kao plants replaced equipment such as chillers and compressors with Best Practice Technologies (BPT) in 2016. We are promoting more efficient operations in plants that use multiple compressor units that generate high-pressure air by using more advanced operating controls.

At plants and offices, we continue to work actively to convert sales vehicles to hybrid models, practice fuel-efficient driving techniques, and switch to LED lighting. Starting in 2015, plants, Logistics Centers and offices in Japan have been switching their fluorescent lights to LED in a four-year plan. At the end of 2016, approximately 67% of lights had been switched under the plan, contributing to approximately 2,240 fewer tons of CO₂ emissions per year. Our overseas plants and other locations are also conducting these activities.

Eliminating wasted energy

Kao plants use large amounts of steam for purposes such as chemical reactions, washing and sterilizing. Aiming to improve the efficiency of our steam use, we are continuing to strengthen our steam trap maintenance and increase the amount of steam we recover.

We also continue to implement fundamental improvements at sites that use steam, including lowering the heated temperature of tanks and shortening operating times.

We are also actively integrating sales bases and improving the efficiency of activities to reduce the number of sales vehicles.

We had 199 cases of energy-saving activities that also help reduce costs (Japanese plants/offices) in 2016, resulting in approximately 2,900 tons of CO₂ reductions and 100 million yen of cost reductions per year.

2. Efforts to use cleaner energy

Clean-burning fuel

Gas fuel, especially natural gas, is the cleanest fossil fuel. We use natural gas at all plants outfitted with the necessary infrastructure. We do not use any coal.

Use of renewable energy

Kao-owned plants (including Logistics Centers), such as Kao Corporation's Wakayama Plant and the Atsugi Logistics Center, have begun introduction of solar panels (total generated electricity was 459 MWh in 2016). Plants are also considering solar photovoltaic power system installations for newly built structures. Purchase of renewable energy began in Europe. Four subsidiaries including Kao Chemicals GmbH in Germany and Molton Brown in the UK have converted all purchased power to renewable energy sources (29.7 GWh in 2016). Using power from renewable energy reduced CO₂ emissions by 14,200 tons in 2016.

Use of power with low GHG emission factors

To reduce the CO₂ emissions of the purchased power we use, we include consideration of GHG emission factors when selecting power suppliers.

3. Reducing the volume of leaked refrigerants and other greenhouse gases

Refrigerants have very high global warming potential. Therefore, we conduct periodic equipment inspections to reduce the amount of refrigerant leaks. In addition, refrigeration equipment that uses refrigerant with lower global warming potential is selected for new installations when facilities allow. In 2016, Kao Corporation's Kashima Plant and Kao Sanitary Products Ehime Co., Ltd. introduced a total of three refrigeration systems.

As a result of these activities, scope 1 and scope 2 emissions volumes at Kao have been reduced by 18,000 tons and 14,000 tons respectively.

Efforts in distribution

Shipping companies, etc.

Retailers

Global

1. Increase shipment volumes per shipment

To improve loading efficiency, we are taking steps such as changing product sizes. We are also using larger vehicles and switching to more efficient distribution routes.

2. Shorten shipping distances

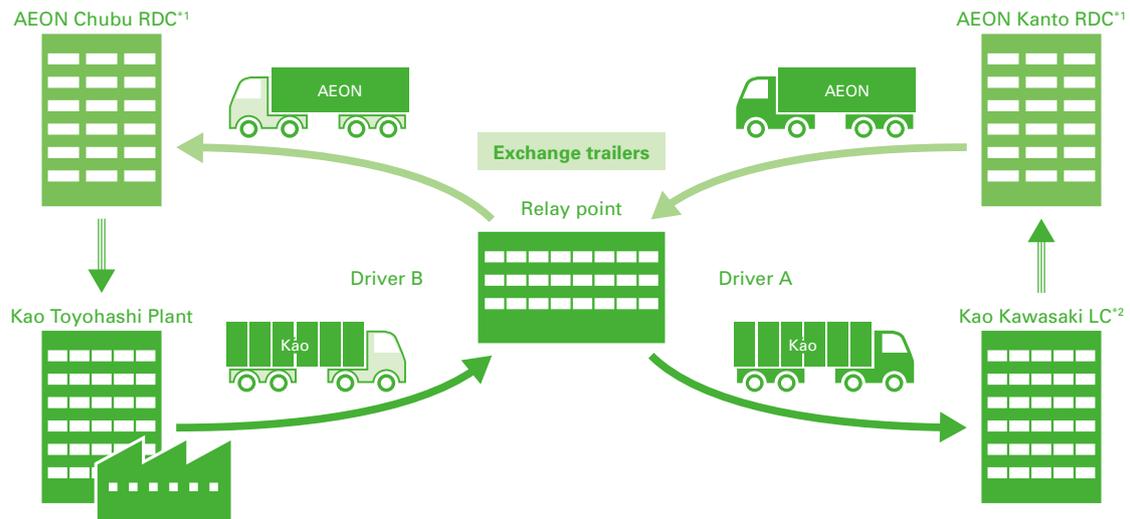
We are continuing to look at ways to optimize manufacturing plants and shift which Logistics Center is used depending on the delivery volume and method.

3. Use cleaner transportation methods

We are pursuing steps such as switching from truck to rail and ship transportation (modal shift), which have lower CO₂ emissions.

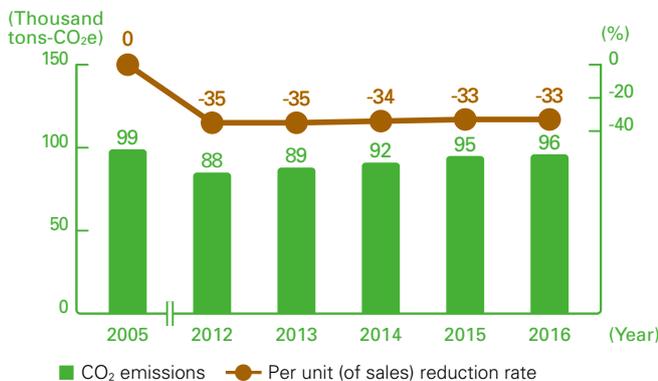
Together with AEON Global SCM Co. Ltd., which is a consolidated subsidiary of AEON Co. Ltd. that handles logistics, we have adopted a trailer relay transportation system in which drivers switch the trailers they are hauling at a relay point midway between the delivery and return points of the Tokyo metropolitan area and the Chubu region. This is the first such collaboration between companies of different industries in Japan. Overall, this collaboration is expected to result in an approximate 27.5% reduction in CO₂ emissions and a 25% reduction in distribution costs. This relay system received the Ministry of Economy, Trade and Industry (METI) Minister's award in the Excellent Green Logistics Partnership Commendation Program established by METI.

Trailer relay transportation system by Kao and AEON



*1 RDC: Regional Distribution Center
*2 LC: Logistics Center

CO₂ emissions trends during distribution★ (Japan)



CO₂ emissions during distribution in Japan came to 96 thousand tons-CO₂e in 2016, a 33% reduction (per unit of sales, 2005 baseline).

* Boundary: Kao Corporation and Kanebo Cosmetics Inc.
* Assurance provided for CO₂ emissions.
* Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

Efforts during use

[Customers, etc.](#)
[Global](#)

Many Kao products use large amounts of water during use, such as laundry detergent, dishwashing detergent and shampoo in the Consumer Products Business, and washing and rinsing agents for steel in the Chemical Business. More CO₂ is generated by the energy consumed in the subsequent water and sewer treatment processes. Of these products, dishwashing detergent and shampoo are examples of products that use hot water in the use stage, which also results in more CO₂ emissions generated to heat the water. Therefore, Kao is actively developing water-saving products that use less water including hot water, and products able to achieve the same level of performance at a lower water temperature in order to produce less CO₂ emissions in the use stage.

We are also developing products that contribute to lower power consumption during use. For example, *Essential* shampoo in the Consumer Products Business coats the cuticle

on the hair surface. This helps prevent tangles and allows air from the blow dryer to better penetrate the hair during drying and shorten drying time after shampooing.

In our Chemical Business, the toner used in photocopiers and printers is able to adhere to paper at a lower temperature than existing toners.

In 2014, we jointly developed a highly functional rubber material for tires with Bridgestone Corporation. We developed the rubber material by fusing Kao's interface control technology with Bridgestone's base material technology. This innovation improves fuel efficiency, leading to lower CO₂ emissions, and improves grip performance on wet road surfaces.

→p. 91 Community > Communication with corporate customers (Chemical Business)

Efforts in disposal and recycling

[Social systems](#)
[Global](#)

CO₂ emissions in the disposal and recycling stages are mainly from incinerating disposable diapers and other used products as well as used packaging.

Kao is taking the approach of reducing the materials used in diapers and other products, and the approach of the 4Rs* in packaging.

For packaging in particular, we are actively introducing carbon-neutral bioplastics.

*4Rs

Reduce, Renewable, Reuse, Recycle

→p. 59 Conservation > Packaging

Water (DMA, EN8, EN9, EN22, EN24, EN26, EN27, EN29, EN33, SO8)

Kao's approach

Kao believes that water management is necessary for the stability of manufacturing activities, not only in its own manufacturing activities but also at suppliers. Many Kao products require water during use, and generate wastewater after use that flows into waterways. Therefore, we are actively offering products that require less water during use and generate wastewater with less impact on the environment.

Social issues and Kao's approach

To achieve Goal 6 of the Sustainable Development Goals, "Ensure access to water and sanitation for all," the world has agreed to improve water usage and manage water quality to provide clean water.

Kao recognizes that shortages of available water, floods and other risks due to water shortages and pollution associated with growing urban populations and natural causes are material management issues. Meanwhile, we also recognize that there are opportunities associated with mitigating risks, including reducing the volume of water consumed and adapting to water risks.

Risks and opportunities from regulations

Some national and regional regulations and public policies, such as those limiting water intake and regulating wastewater, impact our manufacturing business activities. Others impact products, such as limits on water consumption volumes during product use and the water footprint of products to be displayed in labeling. We consider these types of regulations and policies to be a risk to our business continuity and growth.

To comply with these regulations, we are proactively taking steps to reduce water consumption volumes in our plants and proposing water-saving products in countries and regions to expand our business. We are also introducing a system to calculate the environmental impact of our products.

Risks and opportunities from physical impacts

The declining amount of available water per person, partially due to growing urban populations and droughts caused by extremes in rainfall associated with climate change, has

emerged as a problem. Stronger hurricanes and typhoons and other unavoidable natural disasters such as floods and storm surges from extreme rainfall due to climate change are a risk to our business operations.

Meanwhile, we also believe that the physical impacts are associated with numerous opportunities in the Consumer Business especially. For example, water-saving products address the decline in available water volumes. We aim to expand business by offering products in countries and regions to meet these emerging needs.

Other risks and opportunities

We believe that offering products that minimize water pollution from wastewater after product use, and efforts to address the above water risks, are indispensable to our business continuity and growth. If these efforts are insufficient, we may have difficulty in entering markets for environmentally friendly products and not be able to gain the trust of various stakeholders.

On the other hand, continuously offering higher value environmentally friendly products and expanding the markets facilitates our business expansion. Proactive information disclosure leads to increased trust from various stakeholders and contributes to business expansion.

Therefore, we are promoting reduced water consumption across the entire product lifecycle. We are also reducing the chemical substances contained in wastewater from our plants and conducting other activities including surveys on the environmental impact of wastewater after product use.

Policies

The ratio of water consumption volumes at each stage of the Kao product lifecycle calculated based on the ISO 14040 series (Lifecycle Assessment (LCA) standards) is as follows.

Ratio of water consumed at each stage of Kao products' lifecycle



* 2016 results

Looking at a breakdown of water usage, much more water is used in the raw materials procurement and use stages than is used in Kao activities in development, manufacturing, sales and distribution. Therefore, to reduce water consumption volumes and the environmental impact from Kao activities as well as to reduce water impact at the raw materials procurement and use stages, we are promoting "eco together" activities with various stakeholders comprised of consumers, business partners and society.

Efforts with suppliers

To promote water risk management and encourage reductions in water consumption at suppliers, we are conducting surveys and gathering information from suppliers about their water consumption through the CDP's supply chain program.

Efforts at plants

We use water as a product ingredient as well as to clean and cool equipment in plants. Accordingly, we have set targets to reduce our water consumption and are conducting activities based on the 3R's (Reduce, Reuse, Recycle).

Survey of water risks

We conduct periodic risk assessments for water risks based on internal information and assessment results using the WRI* Aqueduct. When opening new plants, we also examine the long-term usage feasibility of water resources and the wastewater impacts.

Initiatives to prevent water pollution

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

Surveys of groundwater and soil contamination

In light of our history of chemical substance use, we voluntarily measure the levels of substances regulated by standards within the premises of each plant every year.

Compliance with environmental legislation

We maintain and manage facilities and work procedures at an advanced level to comply with various environmental legislation related to plant wastewater and waste, as requirements are becoming stricter year by year (In Japan, this includes the Water Pollution Control Act and laws related to managing waste).

Efforts in products

We are actively developing and offering products able to contribute to saving water. Further, we are working to develop products whose wastewater after product use has little impact on water environments. In addition, we are conducting surveys and research on waterway contamination in cooperation with experts and industry associations.

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

Structures

Managing divisions and relevant stakeholders by product lifecycle stage

Product lifecycle stage	Managing divisions at Kao	Relevant stakeholders
Raw materials procurement	R&D Division Purchasing Division	Suppliers Contract manufacturers
Development/ Manufacturing/Sales	Marketing Division R&D Division SCM Division Sales Division	Local communities Retailers
Distribution	SCM Division Logistics Division	Shipping companies Retailers
Use	R&D Division	Consumers
Disposal/Recycling	R&D Division	Social systems

Water consumption across the entire lifecycle is managed under the Responsible Care promotion system.

The SCM Division, which oversees plants that use large amounts of water among Kao business sites, has set up an environmental working group comprising staff in charge of the environment at all plants. The working group meets twice a year to review topics such as progress management of environmental activities, including water conservation activities at plants, new technologies, introduced technologies, and developing these across the Kao Group.

→p. 184 Responsible Care Activities/Structures

Mid- to long-term targets

Targets for water consumption

Index	Scope	2016 targets	2017 targets	2020 targets
Water consumption	Kao Group All sites	37% reduction	38% reduction	40% reduction
	Kao Group in Japan During consumer product use	—	—	30% reduction

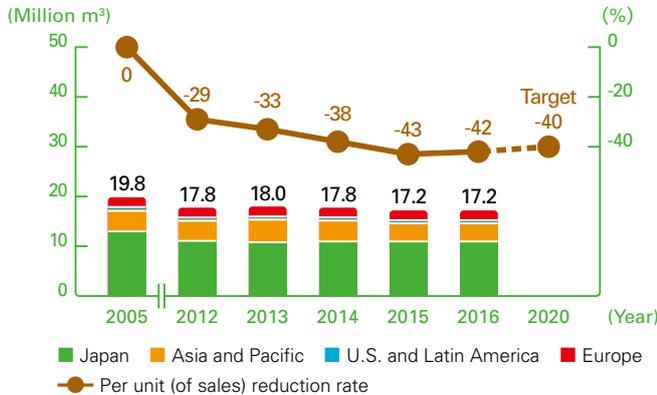
* Per unit of sales (2005 baseline)

We set the 2020 reduction targets for water consumption for all Kao Group sites in 2013 and have aimed to achieve at least a 1% reduction each year.

We set the 2020 reduction targets for water consumption during product use for the Kao Group in Japan in 2009.

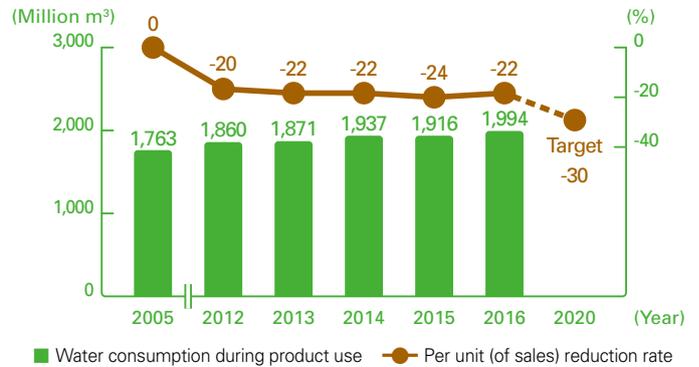
2016 results

Water consumption (withdrawal)★ (all sites)



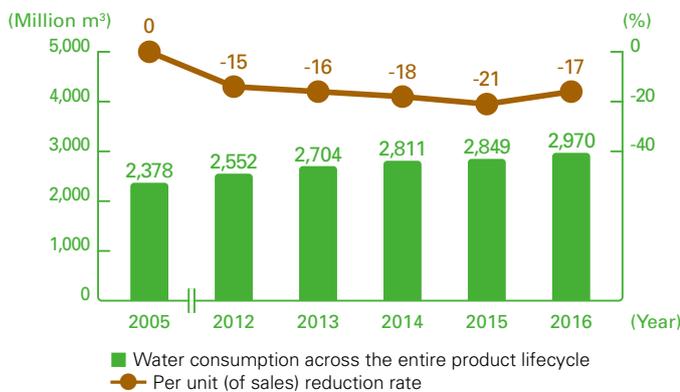
- * Boundary: Through 2014, all Kao Group production sites as well as non-production sites within Japan. From 2015 onwards, includes some non-production sites outside Japan, and for 2016, includes all non-production sites outside Japan.
- * Assurance provided for water consumption (withdrawal).
- * Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

Water consumption during product use★ (Kao Group in Japan)



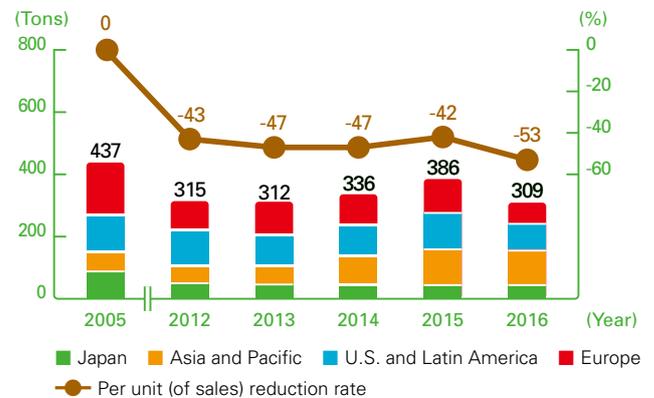
- * Calculated by summing the water consumption during the use of consumer products sold in Japan. The water consumption during the use of each product is obtained by multiplying the unit water consumption by the annual sales number of the product.
- * Assurance provided for water consumption and per unit (of sales) reduction rates.
- * Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

Water consumption across the entire product lifecycle★ (Kao Group)



- * Calculated mainly by summing the lifecycle water consumption of consumer products sold globally. Lifecycle water consumption of each product is obtained by multiplying the unit consumption by the annual sales number of the product. Among the lifecycle, the estimated consumption from manufacturing and logistics processes are substituted by the actual consumptions from these processes. Consumptions during the use and disposal processes of industrial products are not included.
- * Assurance provided for water consumption and per unit (of sales) reduction rates.
- * Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

COD pollution load★ (all production sites)



- * The amount of COD pollution load in wastewater entering sewer systems takes into account the removal rate from said sewer systems.
- * Assurance provided for COD pollution load.
- * Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

Water (DMA, EN8, EN9, EN22, EN24, EN26, EN27, EN29, EN33, SO8)

Trends of water withdrawal by source (Million m³)

	2014	2015	2016
Surface water	0	0	0
Brackish water/ seawater	0	0	0
Rainwater	0	0	0
Undergroundwater (renewable)	5.4	4.7	4.9
Undergroundwater (not renewable)	0	0	0
Oil-contaminated water/process water	0	0	0
City water	12.4	12.5	12.3
Wastewater from other organizations	0	0	0

* Boundary: Through 2014, all Kao Group production sites as well as non-production sites within Japan. From 2015 onwards, includes some non-production sites outside Japan, and for 2016, includes all non-production sites outside Japan.

Our water consumption (all sites) came to 17.2 million m³, the same as the previous year. While the per unit of sales reduction rate dropped by 1 point to a 42% reduction, we achieved our 2016 target of a 37% reduction and have achieved our 2020 target of a 40% reduction since the previous year. In addition, our water consumption at manufacturing sites in the areas where withdrawal risks are predicted came to 1.9 million m³.

Our water consumption across the entire lifecycle of products (Kao Group) and during product use (Kao Group in Japan) increased 121 million m³ and 78 million m³, respectively. The respective per unit of sales reduction rates deteriorated 4 points to a 17% reduction, and 2 points to a 22% reduction.

Our COD pollution load declined 77 tons over the previous year and the per unit of sales reduction rate improved 11 points.

Trends of wastewater discharge by destination (Million m³)

	2014	2015	2016
Rivers, lakes	2.0	2.0	2.1
Brackish water intake source/Ocean	6.4	6.3	6.3
Groundwater	0	0	0
Sewage system	4.2	2.7	2.7
Wastewater to other organizations	0	0	0

* Boundary: Through 2014, all Kao Group production sites as well as non-production sites within Japan. From 2015 onwards, includes some non-production sites outside Japan, and for 2016, includes all non-production sites outside Japan.

Collaboration with stakeholders

- We are participating in the supply chain program conducted by the CDP. Using the CDP platform, we request reports of activities related to water from Kao suppliers.
- We conducted awareness-raising for water conservation at 41 universities as part of a water conservation campaign that we continue to conduct in cooperation with the Chinese government.
- We participated in the “Water Style Summit with CDP’s Japan Water Forum 2016” panel discussion sponsored by the Ministry of the Environment of Japan and held at United Nations University. We described Kao’s water-related efforts and held meaningful discussions with the panelists.

→ p. 67 Conservation > Environmental communication

Specific initiatives

Efforts in raw materials procurement

Suppliers

contract manufacturers

Global

We have participated in the CDP supply chain program since 2015, and request our suppliers to disclose information on their water-related efforts, including the status of risk management and water consumption.

Efforts in development, manufacturing and sales

Shipping companies, etc.

Retailers

Global

We use water as a product ingredient as well as to clean and cool equipment in plants. We have set targets to reduce our water consumption and are working to reduce consumption and increase recycling based on the 3R's.

In terms of reducing consumption, multiple plants including Kao Chemicals GmbH in Germany have conducted efforts to increase the number of times water for boilers and water for cooling is reused and reduce their usage volumes.

Efforts to reuse water include collecting rainwater and using it to water green spaces at the Sumida Office, Kao Chemical Corporation Shanghai and Fatty Chemical (Malaysia).

We are also promoting recycling efforts to treat and reuse water at many plants, such as recovering steam after use and treating and reusing water that has been used in production processes.

As a result of conducting risk assessments on water stress at production sites, we discovered new risks at six sites. We are currently conducting detailed risk assessments at each site and considering what future actions are required.

Surveys of undergroundwater and soil contamination

As a result of investigating soil contamination at Kawasaki Plant based on local regulations, levels of some substances exceeding the regulatory limit were detected, and we took appropriate measures under the direction of the authorities. Voluntary investigations were conducted at the Wakayama Plant, Sumida Office, Sakata Plant, Kawasaki Plant, Tochigi Plant and Odawara Office, and it was confirmed that levels of all substances were below their regulatory limit values across all test items.

Compliance with environmental laws and regulations

In 2016, there were three cases of violations of environmental regulations, with fines of 2.59 million yen. There was one case of a VOC violation at Kao Corporation Shanghai, one case of a hazardous substance storage violation at Kao Chemical Corporation Shanghai, and one case of late reporting to the government at Kao USA.

Compliance status with environmental laws and regulations

	Number of violations*1	Of which, number of leaks	Total fines*2 (thousands of yen)	Of which, number of leaks (thousands of yen)
2014	3	1	86	0
2015	1	0	0	0
2016	3	0	2,590	0

*1 All incidents detected by authorities during the reporting period

*2 Fines paid during the reporting period

Initiatives during product use

Customers

Global

Efforts in the Consumer Products Business

In the home, laundry detergent is responsible for a large amount of water consumption. In 2009, Kao launched the concentrated liquid laundry detergent *Attack Neo* as a product that not only saves water but also electricity and time by introducing new cleansing agents that requires only one rinse cycle. The series continues to expand, and water-saving laundry detergents have also been launched in other countries including China, Australia and Singapore.

Similar to washing clothes, washing dishes accounts for a large amount of water consumption in the home. An improved *CuCute* dish detergent was launched in 2014 featuring improved cleaning power as well as faster rinsing capability.

For bath products, which use large amounts of water, the *Merit Shampoo* launched in 2010 reduces the amount of water needed for rinsing by about 20% compared with the previous version. We are also educating consumers about eco-

shampoo techniques to use less water when shampooing hair.

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

Efforts in the Chemical Business

Visco Top is a cement additive in the Chemical Business that can prevent cement from dispersing into surrounding rivers, seas and other water sources when used in construction projects taking place near water. *Visco Top* is also being used in work to remove contaminated water at the Fukushima Daiichi Nuclear Power Plant.

→p. 91 Community > Communication with corporate customers (Chemical Business)

We at Kao continue to offer water-saving products with lower impacts on water environments.

Initiatives for discharged water after product use

Social systems

Global

In product development, we incorporate considerations for impacts on the regional water environment of discharged water after product use. More specifically, we have investigated the biodegradability of raw materials that may be discharged into the environment and their impacts on common aquatic organisms using river water and activated sludge used at wastewater treatment plants. Through this investigation, we are actively promoting the development and use of raw materials with reduced environmental impact.

In addition, we are focusing on understanding the situation of water environments after product use and are conducting our own field surveys on an ongoing basis, such as environmental monitoring of river water. To respond to

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

Furthermore, the Japan Soap and Detergent Association (JSDA) has conducted environmental monitoring of four major surfactants in urban river systems (4 rivers, 7 sites, 4 measurements/year) for the past 18 years as well as environmental risk assessments on aquatic ecosystems. In the surveys conducted so far, these surfactants have consistently been shown to have low risk to aquatic organisms.



Companies That Value Water Will Survive

Junji Hashimoto

Journalist specializing in water issues, representative of Aqua-Sphere Water Literacy Labo

The United Nations World Water Development Report (2014) states that “Worldwide, an estimated 768 million people remain without access to an improved source of water—although by some estimates, the number of people whose right to water is not satisfied could be as high as 3.5 billion—and 2.5 billion remain without access to improved sanitation.” More than 40% of the world’s population is predicted to face water stress or scarcity in 2050 due to climate change and growing demand for water. The Global Risks Report, released each year by the World Economic Forum (Davos meeting), cites “water crises” as one of the biggest risks to impact the world 10 years from now. Indeed, water crises was ranked first in 2015 and third in 2016. Production activities require water, and corporations use large quantities of water for cooling and heating, product processing and cleaning, producing raw materials, and the like. Hand in hand with globalization, corporations have established manufacturing and raw materials production sites around the world. But if water shortages occur in these areas, it puts a stop on production activities.

What is difficult to gauge is the amount of water consumed when using a product. In Japan, per capita daily

water consumption stands at 290 liters (2012), the majority of which is used for hygiene and sanitation. According to a survey on how households use water by the Bureau of Waterworks, Tokyo Metropolitan Government, 40% of water is used for taking baths and showers, 22% is used for toilets, 17% is used for food preparation, 15% is used for washing clothes, and the remaining 6% is used for grooming and miscellaneous purposes. This water usage is related to the soaps, shampoos, and detergents offered by consumer product manufacturers. Considering that water shortages are expected to grow more acute around the world, Kao’s development of water-saving products including laundry detergent that requires less rinsing and dishwashing detergents that wash away easily will contribute to dramatically reducing household water consumption while maintaining sanitation and hygiene with less water.

Another issue must be considered, however. The amount of water people use is up to them. Even if a manufacturer develops a laundry detergent that requires only one rinse cycle, water consumption will not fall if consumers continue to use two rinse cycles. This requires more focused communication with consumers. Another issue is consideration for water quality. Product technology innovations must not negatively impact ecosystems, and water standards globally are likely to become stricter in the future. Goal 6 in the Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development by the United Nations is, “Ensure access to water and sanitation for all.” I expect Kao to make contributions toward this goal.

Chemical substances (14, DMA, EN21, LA10, SO1)

Kao's approach

Kao has been actively promoting the sound chemical management in order to use and produce chemicals in ways that minimize their significant adverse effects on human health and the environment by using science-based risk assessment procedures and risk management procedures. This management conforms to the Strategic Approach to International Chemicals Management (SAICM) across the product lifecycle from development and production to use and disposal, aiming to contribute to the realization of a sustainable society.

Social issues and Kao's approach

Member countries at the World Summit on Sustainable Development (WSSD) held in 2002 adopted the international WSSD 2020 goals, which include the goal of sound chemical management, "aiming to achieve, by 2020, that chemicals are used and produced in ways that lead to the minimization of significant adverse effects on human health and the environment, using transparent, science-based risk assessment procedures and risk management procedures, taking into account the precautionary approach." Toward this goal, in the first International Conference on Chemicals Management (ICCM) held in 2006, member countries established the Strategic Approach to International Chemicals Management (SAICM), which consists of a High-Level Declaration, Overarching Policy Strategy and Global Plan of Action, which was approved by the United Nations Environment Programme (UNEP).

We handle many types of chemical substances from raw materials to final products, and have always strived to soundly manage the chemical substances that we use and manufacture. In 2001, we established our own Comprehensive Management System for Chemical Substances to soundly manage chemical substances, including quality management of raw materials and products, compliance with laws and regulations in each country, and safety assurance. Based on the global trend of more rigorous management of chemical substances, including adoption of the SAICM, we set medium-term objectives including "active implementation of the SAICM to promote sound chemical management" in the Kao Environmental Statement released in 2009. In 2012, we established the SAICM Promotion Committee to achieve effective implementation of SAICM.

Policies

We handle a wide range of chemical substances from consumer to industrial products, and have always promoted thorough chemical management. In addition, we are promoting and strengthening management of chemical substances based on the internationally established SAICM in order to use chemical substances more safely and soundly. We formulated the SAICM Promotion Policy in 2013. It defines our management policy for chemical substances at Kao and forms the basis of our management of chemical substances.

SAICM Promotion Policy

- (1) Development and Use of Safer and More Valuable Chemicals, and the Development of Manufacturing Processes with Less Environmental Impact
- (2) Chemicals Management throughout the Entire Life Cycle of Chemicals based on Scientific Risk Assessment
- (3) Compliance with Laws and Regulations on Chemicals and Voluntary Standards, and the Promotion of International Cooperation and Collaboration
- (4) Promotion of Risk Communications with Stakeholders

➔For details, refer to SAICM Promotion Policy

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

Structures

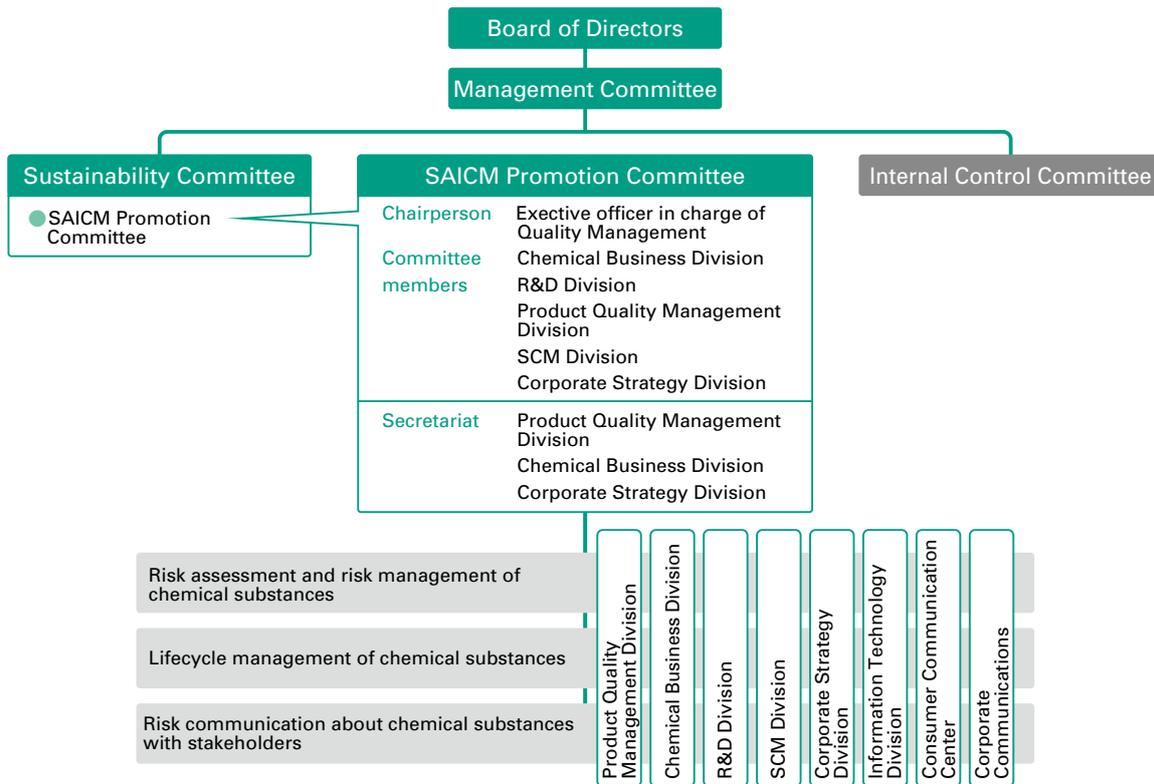
To achieve effective implementation of SAICM, we established the SAICM Promotion Committee in 2012 under the Sustainability Committee chaired by the President. The SAICM Promotion Committee is comprised of top-level management in the Product Quality Management Division, Chemical Business Division, R&D Division, SCM Division and Corporate Strategy Division.

The three major SAICM activities at the SAICM Promotion Committee are:

1. Risk assessment and risk management of chemical substances
2. Lifecycle management of chemical substances
3. Risk communication about chemical substances with stakeholders

We have established and are promoting projects for each of these activities under the committee.

SAICM Promotion Structure



Under the Responsible Care promotion system, we are also promoting activities to reduce emissions of volatile organic compounds (VOCs) and other substances subject to the PRTR system.

→ p. 184 Responsible Care Activities/Structures

Comprehensive Management System for Chemical Substances

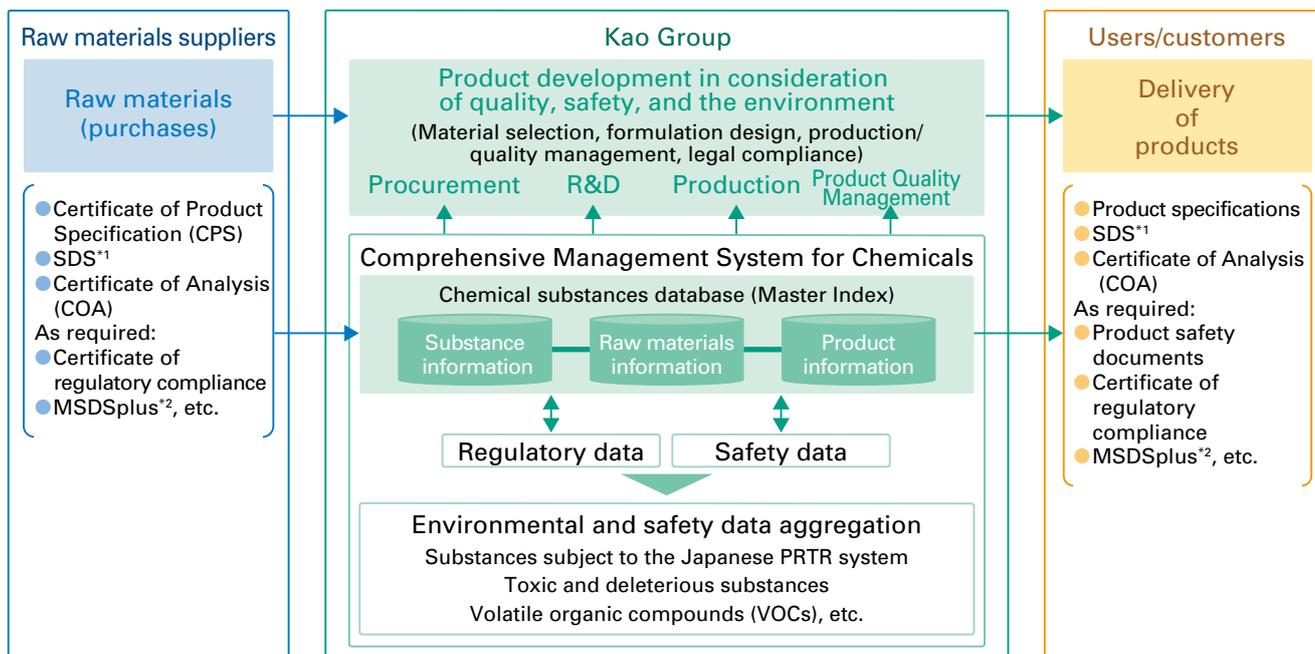
To ensure the safety and assurance of consumer and industrial products, in 2001 we created the Comprehensive Management System for Chemical Substances, which gives uniform Kao Group codes (Master Index) to individual products and raw materials. The system breaks down and registers raw materials by their constituent ingredients. It is able to immediately verify, for each product, what raw materials are used and their safety, anti-bacterial grade, regulatory and other information. If a problem with a raw material arises, or if risk from a new substance of concern emerges, the extent of the effect can be immediately identified so that appropriate action can be taken.

The Consumer Products Business, which encompasses a wide range of product fields, and the Chemical Business, based on materials development, handle a large number of

chemical substances. To comply with various legal and environmental regulations in an increasingly globalized and borderless world, we have created our own criteria for categories including Banned Substances, Reduction Targeted Substances and Caution in Handling Substances. The criteria serve as a control gate when registering substances in the database.

Based on integrated management by members with specialized expertise, data accumulated in the Comprehensive Management System for Chemical Substances are shared among Kao Group divisions including Procurement, R&D, SCM, Product Quality Management and Corporate Strategy. We are actively promoting sound chemical management on a company-wide basis.

Kao Comprehensive Management System for Chemical Substances



*1 SDS (Safety Data Sheet)

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

*2 MSDSplus

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

Education and promotion

We publish the details of our SAICM activities and safety summaries of Kao priority risk assessment substances for which we have conducted a risk assessment. We then release this information on the Kao and Kao Chemicals websites to communicate it inside and outside Kao.

At production sites that handle chemical substances, we created educational programs for current and new employees and internal transfers structured by field of specialization and

level of experience. The curriculum includes information on the risks and hazards of chemical substances.

We also hold informational sessions for researchers involved in development of consumer products, chemical products and base materials, where we provide information on legal regulations and other circumstances in different countries. In 2016, 249 researchers participated in these informational sessions.

Mid- to long-term targets

We set the 2020 medium-term objectives including “active implementation of the SAICM to promote sound chemical management” in the Kao Environmental Statement released in 2009.

The SAICM Promotion Committee has set the following medium-term targets.

- Conduct risk assessments for the selected chemical groups (19 categories) for Kao priority risk assessment by 2020 and continue this activity after 2020
- Conduct risk assessments and implement corresponding measures at worksites handling chemical substances by 2020, and conduct risk assessments for new chemical substances and implement corresponding measures after 2020
- Release the safety summaries for 20 substances for Kao priority risk assessment by 2020 and continue this activity after 2020

- Release GPS Safety Summaries* for 150 chemical products by 2020 and continue this activity after 2020

We are also striving to address issues related to legal compliance for chemical substances, the safety of chemical substances and the environment.

We aim to maintain annual emissions of chemical substances subject to the Japanese PRTR system to 1 ton or less for each substance from each plant in Japan. We are working to improve our global NOx and SOx emissions by 1% each year (per sales unit).

* GPS Safety Summary

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

2016 results

- The SAICM Promotion Committee had set the following three targets for 2016 and conducted activities accordingly.
 1. Conduct risk assessments and create risk assessment reports for Kao priority assessment substances in line with the medium-term plan/Build the fundamental base of a lifecycle management system for chemical substances
 2. Plan and implement risk reduction measures at worksites based on chemical substance risk assessments/Begin display of hazardous labeling at worksites according to the GHS^{*1}
 3. Study of ways to publicly release the deliverables of SAICM activities/Engage in two-way communication

→For details, refer to Specific initiatives: SAICM Promotion Committee activities

- To address issues related to legal compliance for chemical substances, the safety of chemical substances, and the environment, we have strengthened compliance with legal regulations for chemical products globally, the activities we conduct for sound chemical management throughout the

supply chain based on providing information on chemical products, and import and export management of chemical products.

Some people have recently raised environmental concerns about plastic microbeads^{*2}. No face washes or body washes sold in Japan by the Kao Group use plastic microbeads. A very limited number of rinse-off cosmetics and body washes sold outside Japan had used plastic microbeads, but all were replaced with alternate ingredients in 2016.

- We continued to conduct emissions management of substances subject to the Japanese PRTR system and VOCs as well as initiatives to prevent air pollution.

*1 GHS

Globally Harmonized System of Classification and Labelling of Chemicals

*2 Plastic microbeads

Any solid plastic particle that is less than five millimeters in size and is intended to be used to exfoliate or cleanse the human body or any part thereof (as defined in U.S. federal legislation)

Collaboration with stakeholders

To deepen understanding about social concerns and the needs of stakeholders for companies in chemical substance management, and to provide feedback on SAICM promotion activities, we regularly hold presentations by outside experts and exchange opinions in meetings of the SAICM Promotion Committee. We held these presentations and opinion exchanges in 2016 too.

In addition, we have been participating actively in the Japan Initiative of Product Stewardship (JIPS)*, a voluntary activity aimed at strengthening management of chemical substances through product stewardship proposed by the International Council of Chemical Associations (ICCA). The Japan Chemical

Industry Association has been implementing the initiative since 2009, and it reflects an effort by the chemical industry to make a major contribution toward SAICM.

We also cooperate with government initiatives together with countries in Asia for the management of chemical substances and actively participate in opinion exchanges with government authorities inside and outside Japan.

* JIPS (Japan Initiative of Product Stewardship): A voluntary effort based on Global Product Strategy (GPS) principles for enhancing global management of chemical substances that the International Council of Chemical Associations (ICCA) is promoting in response to SAICM.

Specific initiatives

SAICM Promotion Committee activities

Conduct risk assessments and create risk assessment reports for Kao priority assessment substances in line with the medium-term plan

Global

Build the fundamental base of a lifecycle management system for chemical substances

In 2016, the risk assessments of Kao priority assessment substances in three categories scheduled for 2016 were completed (cumulative total of 12 categories) according to the medium-term plan. We compiled the results of assessments done to date in a risk assessment report.

Meanwhile, we conducted a review of the foundation for a more advanced lifecycle management system for chemical

substances based on the Comprehensive Management System for Chemical Substances. We focused on establishing the quantitative management system for chemical substances and re-establishing the Safety Data Sheets (SDS) creation and management system. This development is scheduled to continue in 2017.

Plan and implement risk reduction measures at worksites based on chemical substance risk assessments

Global

Begin display of hazardous labeling (GHS) at production sites

Regarding risk assessments at worksites that handle chemical substances, a combination of risk assessment methods have been employed, such as a qualitative risk assessment of worksites using the so-called control banding method^{*1}, and the more detailed ECETOC TRA^{*2} also adopted for risk assessments in the EU's REACH^{*3} regulation. In 2016, we completed implementation of risk mitigation measures for work processes that handle substances subject to the Japanese PRTR system, VOCs and toxic substances for which risk assessments have already been completed. The amended Industrial Safety and Health Act came into force in June 2016. Accordingly, we have begun to revise our standards in order to conduct risk evaluations for new work tasks and tasks whose procedures have changed. We also began risk assessments and planning risk mitigation measures.

Regarding display of hazardous labeling according to the GHS at production sites, we have developed a new system to automatically create labels that include pictograms and signal words. To ensure that workers check the hazardous information for chemical substances before performing their

work, we have begun displaying labels at sampling, filling and other worksite areas inside plants that handle chemical substances.

*1 Control banding method

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

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

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

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

Study of ways to publicly release the deliverables of SAICM activities

Global

Engage in two-way communication

From 2016, we began publishing SAICM-related information on the websites of six chemical affiliates in Asia in addition to the Kao, Kao Chemicals and Kao Group websites. We additionally released safety summaries for three chemicals for Kao priority risk assessment (cumulative total of 10 summaries). In addition, we have released 18 GPS safety

summaries for Kao chemical products (cumulative total of 107).

We have also begun including information on SAICM promotion activities in the report on environmental and safety activities that we issue at plants in Japan and distribute to visitors at plant tours and local residents.

Response to regulatory compliance for chemical substances, issues involving the safety of chemical substances and the environment

Global compliance with chemical regulations

Global

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

EU

In the EU, REACH (European regulations on chemical products) requires registration of all chemical substances manufactured and imported in quantities of 1 ton or more per year. With close cooperation between Kao Chemicals Europe (KCE) and Kao, KCE and Kao are selecting substances for priority registration each year and conducting the registration procedures. We plan to complete registration of substances currently under REACH registration within 2017, and complete all registration for substances that require REACH registration without delay by the final registration deadline at the end of May 2018.

USA

In the United States, the TSCA*¹ was amended in June 2016. At present, there are no major changes to the notification process for new chemical substances. We have taken corresponding actions for strict risk assessment and have ensured that the required notifications are submitted. New regulations based on the amended act, including revisions of the TSCA inventory, are expected in 2017, and we will take appropriate actions to address any such changes.

Asia (China, South Korea, Taiwan, Thailand)

China and many other countries and regions in Asia are also moving quickly to make registration mandatory for products corresponding to hazardous chemical products. The Kao Group is working together with local Kao companies to submit the relevant notifications before manufacture or import of these products.

In China, the Provisions on Environmental Administration of New Chemical Substances (also known as China REACH) require registration of newly manufactured and imported chemical substances. Registration of products containing hazardous chemicals is also strictly required. In cooperation with local Kao companies in China including Kao (China) Holding, the Kao Group completed registration before the manufacture or import of the target substances. In 2017, we will follow the amendment of the China REACH and share them with related divisions in order to comply with the legal

regulations without delay. We will also update the registrations for hazardous chemical products of which expiration dates come in cooperation with local Kao companies in China.

In South Korea, after the Act on the Registration and Evaluation, etc. of Chemical Substances (K-REACH)*² came into force, we took actions to comply with the legal requirements, including registering and reporting quantities for new and existing chemical substances. Through our South Korean agent, we are participating in two consortiums on existing chemical substances subject to registration. We are taking actions looking ahead to the current June 2018 registration deadline for existing chemical substances subject to registration. Currently, a partial amendment of K-REACH has been announced and is expected to require re-registration of all existing chemical substances manufactured and imported in quantities of 1 ton or more per year (similar to the EU's REACH). We plan to take actions as needed.

In Taiwan, we have calculated the total quantities every two months and submitted reports for chemical substances manufactured or imported in excess of 100 kg per year in cooperation with Kao Taiwan. The phase one existing chemical substances subject to registration are expected to be announced at the end of 2017. We plan to take actions as needed while monitoring the situation.

In Thailand, the government announced the creation of an existing chemical substances inventory and registration system for new chemical substances in August 2015. The registration system for new chemical substances is expected to start sometime after 2017. The existing chemical substances inventory had a preliminary deadline at the end of 2016, and we took the requisite steps in cooperation with Kao Industrial (Thailand). We have created a list of the required products and completed preliminary notification almost on schedule, mainly for products that we have a record of handling. We will continue to monitor announcements on the registration system for new chemical substances and the existing chemical substances inventory, and plan to prepare notifications and take the appropriate actions for existing products and chemical substances after the preliminary response.

*1 TSCA: Toxic Substance Control Act (U.S.)

*2 K-REACH: Act on Registration and Evaluation, etc. of Chemical Substances (South Korea)

Providing information on chemical products for sound chemical management

Global

Kao communicates safety information for chemical products to ensure safety related to chemical substances throughout the supply chain and to ensure that the chemical substances are used appropriately and any necessary actions are taken.

1. GHS-compliant SDS and product labeling

We promote the issuance of GHS-compliant SDS for chemical products in countries that have introduced GHS as well as GHS-compliant product labeling. For the Chemical Business including at Kao Japan and Asian affiliates, Kao has been creating GHS-compliant SDS and product labeling as well as conducting integrated management using the Comprehensive Management System for Chemical Substances since 2008.

In 2016, we implemented GHS labeling for products marketed in countries and regions that have introduced GHS (Japan, EU, U.S., Taiwan, South Korea, China, Singapore, Thailand, Indonesia, Vietnam and Malaysia). We have also established a support system for creating the proper labels for export products. In 2017, we will continue to monitor trends in countries that have introduced GHS and promote creation and issuance of SDS and product labeling to facilitate global trade.

2. Providing and obtaining information on chemicals in products

To comply with increasingly stringent regulations in various countries as well as industry standards, we actively manage the chemical substances contained in chemical products (management of products containing chemical substances). Kao is a founding member of the JAMP^{*1} and efficiently manages and communicates information on products containing chemical substances using MSDSplus, the standardized form provided by JAMP.

In January and July 2016, revised versions of MSDSplus were issued (Substances List Ver. 4.050 and 4.060). We distributed these to customers via sales distributors as well as released them on our corporate website. Similarly, we have produced English and Chinese versions of MSDSplus for products of Asian affiliates and released the most up-to-date versions on those affiliates' websites.

Meanwhile, the Japanese Ministry of Economy, Trade and Industry (METI) has led development of a new information communication scheme called chemSHERPA^{*2}, and JAMP has handled its operation since April 2016. chemSHERPA-CI^{*3}, a data creation support tool for chemSHERPA, was released in October 2015 and updated in February and August 2016. We plan to provide and obtain information using chemSHERPA starting around the second half of 2017.

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

3. Disclosure of risk information on chemical substances (GPS safety summaries)

We have been participating actively in the Japan Initiative of Product Stewardship (JIPS), a voluntary activity aimed at strengthening management of chemical substances through product stewardship proposed by the International Council of Chemical Associations (ICCA). The Japan Chemical Industry Association has been implementing the initiative since 2009, and which constitutes an effort by the chemical industry to make a major contribution toward SAICM. To this end, we have been actively engaging in communication related to chemical substances with customers.

We have always been proactive in providing SDS, MSDSplus and eSDS^{*4} for European disclosure of chemical products as part of our chemical substance related communications. In recent years, we have proactively made available GPS safety summaries that outline, in an easy-to-understand manner, hazard information and information on product risks on the Kao Chemicals website and ICCA GPS Chemicals Portal. We consider publication of GPS safety summaries to be an important element of risk communication on chemical substances with stakeholders that constitutes part of our SAICM activities.

As risk assessment deliverables, in 2016 we published safety summaries on the Kao Chemicals website for Kao priority assessment substances. We prepared 12 GPS safety summaries in Japanese and English for chemical products related to these substances and released them on the Kao Chemicals website and the ICCA GPS Chemicals Portal. We also prepared and published six GPS safety summaries for products with REACH registration. With this, the Kao Group has published a total of 107 GPS safety summaries globally, the most of any company in Japan.

In 2017, we will continue to publish GPS safety summaries and engage in risk communication with customers and with the wider society on a global basis.

*1 JAMP

Joint Article Management Promotion-consortium

*2 chemSHERPA

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

→ chemSHERPA

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

*3 chemSHERPA-CI

A chemical product data creation support tool for communicating information on specified chemical substances corresponding to MSDSplus

*4 eSDS

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

→p. 91 Community > Communication with corporate customers (Chemical Business)

Strengthening export and import management of chemical products

Global

As the Chemical Business globalizes at an increasingly fast pace, the need to introduce a system for import and export management has risen sharply. This includes the need to automatically check legal regulations during importing and exporting at Kao companies related to the Chemical Business, and requests from inside and outside Kao to strengthen our

system of checks in order to comply with legal regulations. Therefore, we are making preparations aiming to introduce a new import and export management system at all Kao companies related to the Chemical Business by 2018. As a first step, in 2016 we completed system introduction at our U.S. Chemical affiliates and have begun system operation.

Activities relating to compliance with laws and regulations in Japan

Japan

1. Compliance with the amended Chemical Substances Control Law

As part of the amended Chemical Substances Control Law, which came into effect in April 2011 and made reporting mandatory on product quantities by usage, we continued to survey usage information on chemical products in 2016 with the cooperation of sales distributors and are maintaining the most up-to-date information. To provide information to customers and sales distributors for the Priority Assessment Chemical Substances under the law, which were added in 2016, we revised the SDS for the target chemical products.

In 2017, we will continue to survey and update usage

information on chemical products with the cooperation of sales distributors and provide information on the Priority Assessment Chemical Substances for the target chemical products.

2. Amended Industrial Safety and Health Act

To comply with the amended Industrial Safety and Health Act, which came into effect in June 2016, we have revised the SDS for the target chemical products and provided information to customers and sales distributors. In 2017, we will take steps to comply with the substances added to the amended Industrial Safety and Health Act in March.

Response to plastic microbeads

Global

Products including rinse-off cosmetics and toothpastes may contain scrubbing ingredients such as exfoliants and cleansing agents. Among the scrubbing ingredients, some people have recently raised environmental concerns about plastic microbeads.

Scrubbing ingredients used in face washes and body washes sold in Japan by the Kao Group are developed by the Kao Group using naturally derived ingredients (cellulose and corn starch). The granules used in toothpaste are also naturally

derived ingredients. Both types of ingredients do not fall under the definition of plastic microbeads.

Only a very limited number of rinse-off prestige cosmetics and body washes sold outside Japan had contained ingredients falling under the definition of plastic microbeads. In 2016, we completed the replacement of all plastic microbeads with other ingredients.

The Kao Group will continue to promote product development with consideration for the environment.

Emission Management of Chemicals

Monitoring and controlling releases of chemical substances subject to the Japanese PRTR system

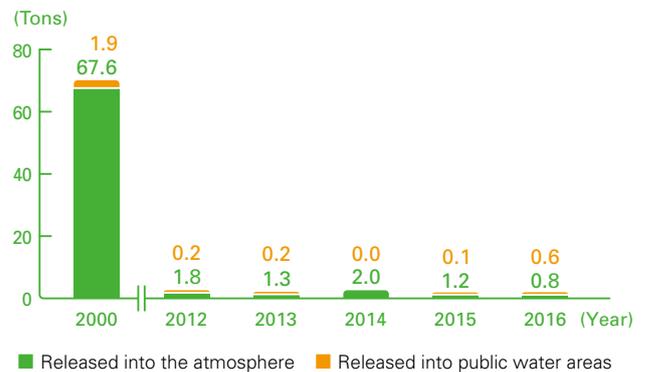
Japan

Kao began activities by setting the voluntary target of annual emissions of 1 ton or less for each substance from each plant in FY2000. We achieved this target in FY2002. Since then, we have continued to achieve this target, excluding leaks of fluorinated gases and similar emissions.

The number of chemical substances subject to the Japanese PRTR system of which Kao handled over 1 ton in 2016 was 74, and the total discharge of such substances into the atmosphere and public water areas was 1.5 tons.

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

Releases of chemical substances subject to the PRTR system



→ For details, refer to List of Emissions of Substances Subject to PRTR System
http://www.kao.com/jp/en/corp_csr/eco_activities_02_07.html

Management of volatile organic compounds (VOC) emissions

Japan

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

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

The Kao Group in Japan handled 35 types of VOCs in quantities over 1 ton in 2016, with total emissions into the atmosphere of 11 tons★.

Initiatives to prevent air pollution

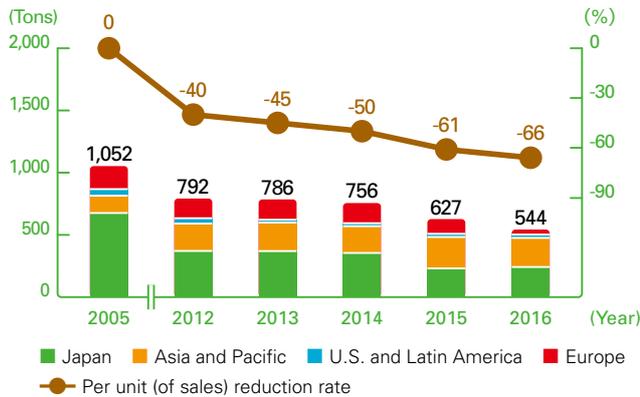
Global

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

Emissions of NOx decreased by 83 tons in 2016 compared with the previous year, a 5 percentage-point improvement on a per unit of sales reduction rate basis.

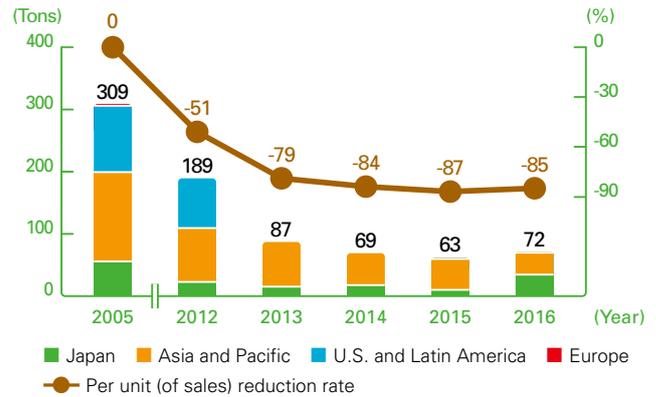
Emissions of SOx increased by 9 tons in 2016 compared with the previous year, a 2 percentage-point deterioration on a per unit of sales reduction rate basis.

NOx emissions★



* Boundary: All Kao Group production sites
 * Assurance provided for NOx emission figures
 * The figures for NOx emissions and per unit reduction rate in 2015 are restated due to the review of past data.
 * Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

SOx emissions



* Boundary: All Kao Group production sites
 * Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

Biodiversity (DMA, EN12, EN27, EN33, LA10)

Kao's approach

Kao's business activities benefit in many ways from biodiversity in all product-related cycles. To continue receiving these biodiversity benefits long into the future, we must conserve biodiversity and use the benefits without irreparably depleting them. We therefore strive to reduce the impacts of our business activities on biodiversity and conserve biodiversity in our social activities.

Social issues and Kao's approach

Palm oil is a principal raw material in Kao products. Palm oil offers the highest manufacturing efficiency of vegetable oils and is an indispensable raw material for humankind. Rainforest destruction is a major problem, however, and presents a key opportunity for Kao to make earnest efforts to conserve biodiversity. Sustainable procurement of raw materials such as palm oil, paper and pulp is positioned as the highest priority in

the Kao's biodiversity initiatives. We have defined specific targets and are working on a daily basis to achieve them.

These activities are aligned with the SDGs, specifically Goal 14: "Conserve and sustainably use the oceans, seas and marine resources," and Goal 15: "Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss."

Policies

In 2010, we analyzed the risks involving biodiversity in our business activities and held information-gathering interviews with 11 related divisions. We also brought division representatives together at workshops to identify risks and issues for the Kao Group and discuss countermeasures. Based on the results of these activities, we defined the Basic Policies on Conservation of Biodiversity in 2011. In these policies, we also pledge to comply with international agreements including

the Convention on Biological Diversity.

➔For details, refer to the Basic Policies on Conservation of Biodiversity and the Action Policies and Introductions of Activities http://www.kao.com/jp/en/corp_csr/eco_activities_03_04.html

Initiatives toward sustainable procurement of all palm oil

➔p. 123 Culture > Sustainable and responsible procurement

Structures

Our policy and activities related to biodiversity are managed under the Responsible Care promotion system.

➔p. 183 Responsible Care Activities/Structures

Education and promotion

From 2011, when we defined our Basic Policies on Conservation of Biodiversity, to 2012, we conducted e-learning courses (beginning and applied) for all employees of the Kao Group in Japan. Following this, each year we have conducted environmental

education including biodiversity topics for new employees.

Outside Japan, we are conducting educational activities on biodiversity at Kao companies through such venues as the Global RC Meeting.

Mid- to long-term targets

2020 mid-term targets

Strive to conserve biodiversity including in raw materials procurement.

2017 targets

1. Promote sustainable raw materials procurement
2. Promote business and social activities with consideration for local biodiversity

Each Kao Group site aims to conduct activities with consideration for biodiversity within their grounds and in their surrounding areas, and to conduct activities with consideration for biodiversity in areas removed from worksites together with government agencies, NPOs and other groups.



2016 results

1. Promote sustainable raw materials procurement

→p. 123 Culture > Sustainable and responsible procurement

2. Promote business and social activities with consideration for local biodiversity

Promotion of biodiversity conservation activities at each site

In 2016, Kao Vietnam began planting local indigenous trees and other varieties on its plant grounds and conducted other activities contributing to local biodiversity conservation. The Wakayama Plant in Japan is conducting the Corporate Afforestation Project together with Wakayama Prefecture upriver of Kinokawa River, a water source used by the plant. In 2016, a signing ceremony was held to mark the decision to add one more location (two locations in total) to the project.

Kao Creating Forests for Everyone program

In March 2016, Kao designated a total of 15 groups, comprising nine groups involved in forest creation and six groups involved in environmental education, as recipients of fiscal 2015 subsidies. To date, a cumulative total of 411 groups have received support through the program.

FURUSATO Environment Conservation Project in Northern Thailand

In 2016, the project planted 8,500 additional trees on 7 ha of land. To date, the project has planted a cumulative total of 42,500 trees on 35 ha.

In July, the project held a tree-planting event with the participation of 660 people including local residents, students from neighboring schools, staff at government agencies, and Kao Group employees in Thailand.

Employee volunteers participate in Post Tsunami Monitoring Project

In 2016, 10 employees went to local areas to support fieldwork. The data obtained in the fieldwork are being used in restoration plans that take biodiversity into consideration and for conservation of species.

→For details, refer to "Kao Group's Corporate Citizenship Activities" report
http://www.kao.com/jp/en/corp_csr/social_activities.html

→p. 49 Conservation > Chemical substances > Response to plastic microbeads

Collaboration with stakeholders

Since beginning biodiversity conservation activities in 2010, we have reviewed our activities under the supervision of outside consultants to ensure that the direction of our activities is on the correct course.

We have participated in the Japan Business Initiative for Biodiversity (JBIB) since its inception in 2008. Here, we contribute to raising the quality of company activities by

introducing our own activities and incorporating the latest international trends and relevant information as well as approaches of other organizations and companies in our own activities.

We actively support biodiversity conservation activities conducted by NPOs and other groups as part of our promotion of social activities with consideration for local biodiversity.

Specific initiatives

Promotion of biodiversity conservation activities at each site

Global

Assuming harmony with local communities, we are promoting business activities with consideration for the local ecosystems within the grounds of Kao worksites and their surrounding areas. These include the forests, waterways, wetlands and oceans that support local livelihoods and culture.

Conservation of pine grove offering storm surge protection at Wakayama Plant

The Wakayama Plant is the largest plant in the Kao Group. A pine grove stretching about 1 km north to south on the plant grounds was originally created in the first half of the 17th century to protect the area from storm surges. It has served this community in disaster reduction up to the present day. The grove also contributes to local biodiversity by creating an ecosystem particular to pine groves, which have become less commonplace today.

To maintain the health of the pine trees, the Wakayama Plant is conducting activities with the goal of establishing conservation techniques to enable complete discontinuation of chemical spraying in order to prevent eutrophication (nutrient pollution) and encourage wild birds to populate the area and eat pests. We are also working to establish and implement a program of

conservation activities that allow the participation of many Wakayama Plant employees and employees of partner companies.

In 2016, we cleared underbrush and removed fallen trees and branches in the grove three times to prevent nutrient pollution of the pine grove zone. We also opened a walking course featuring a promenade to encourage employee health and relaxation and provide a venue for communication.

In addition, the Wakayama Plant receives groups from neighboring elementary schools for tours of the protective pine grove. With the cooperation of retired elementary school teachers, we created a booklet compiling the history of the protective pine grove and its role in environmental conservation and distributed it to elementary schools. These are some of the ways we are also contributing to local next-generation education.

Preparing a biodiversity area at Kao Vietnam

To commemorate its 20th anniversary, employees of Kao Vietnam planted trees on the plant grounds that are beneficial to the local ecosystem and designated it as a biodiversity area. Employees use this area as a place to take breaks, and it is expected to contribute to raising employee awareness toward biodiversity.



Walking in the protective grove



Kao Vietnam employees planting trees on the plant grounds

Understanding relationships between business and biodiversity

Japan

Environmental impact assessments of major products using the LCA

In accordance with the Basic Policies on Conservation of Biodiversity, we are assessing the impacts of our products on biodiversity throughout the product lifecycle. Receiving advice from Professor Norihiro Itsubo of Tokyo City University, we are using LIME^{*1} (Japanese lifecycle impact assessment method), which allows for visualization of comprehensive environmental impact, to assess and report the environmental impact including biodiversity impacts of *Attack* laundry detergent as its stages of use change^{*2}. We have so far conducted environmental impact

assessments of 35 major products. In 2016, we evaluated *Ultra Attack Neo* detergent. The results confirmed that the 2016 *Ultra Attack Neo* reduces environmental impact throughout the product lifecycle by 26% compared with *Attack Highly Active Bio-EX* detergent released in 2009.

*1 ILCD Handbook, 33-36.
<http://eplca.jrc.ec.europa.eu/uploads/ILCD-Handbook-LCIA-Background-analysis-online-12March2010.pdf>

*2 Ohtawa Y.; Miura H.; Itsubo N., *J. Life Cycle Assessment, Japan*, 2015, 11(3), 300-307.
https://www.jstage.jst.go.jp/article/lca/11/3/11_300/_pdf

Waste (DMA, EN2, EN23, EN25, EN27, EN33)

Kao's approach

At Kao, we appropriately manage waste and are reducing waste volumes resulting from our business activities while promoting recycling. We also strive to reduce the amount of packaging used in our products.

Social issues and Kao's approach

Countries worldwide have agreed on the need to manage waste in order to achieve Goal 12 of the SDGs: "Ensure sustainable consumption and production patterns." We are working to reduce the waste generated in our business activities and increase recycling.

In addition, reducing the use of packaging that accounts for a large proportion of household garbage (55% of household

garbage in Japan) has become an issue, and we recognize the importance of reducing its use.

Meanwhile, Japan is a small country with very few remaining years available at landfill sites. Consequently, as a society we need to reduce the volume of waste destined for landfill sites, and we are working toward this goal.

Policies

Reducing waste from business activities

To reduce waste generated from our business activities that is not reused, we are promoting reducing as well as reusing and recycling waste and other generated materials inside and outside the company.

Plants are reducing product loss and offcuts by improving productivity and yield and altering production methods. Other activities conducted at manufacturing sites include revising equipment-washing procedures to reduce wastewater. Logistics Centers are continuing to reduce and reuse distribution materials, and offices are continuing to manage the quantity of paper they use. In cooperation with disposal providers, we are recycling waste on an ongoing basis to reduce the amount of waste that is not reused and destined for landfill sites.

Reducing the volume of packaging

To reduce the amount of packaging used, we are reducing the amount of resin used in packaging and making packaging more compact, by making the contents more concentrated as well as proposing refill products. These activities comply with the ISO 18600 series on standardization of packaging and its environmental impact.

→ p. 59 Conservation > Packaging

Preventing illegal dumping of waste

We view illegal dumping by contracted disposal providers of waste generated in our business activities as a risk. To reduce this risk, we regularly check the sites of waste treatment companies directly contracted to treat our waste to ensure that the contracted waste is treated appropriately.

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

Proper storage and treatment of PCBs

Polychlorinated biphenyls (PCBs) have low degradability and pose a risk to human health and a risk of creating hazards in living environments. However, PCBs were formerly used in insulating oil, such as in transformers and ballasts. Currently, we appropriately store PCB-containing waste according to the Waste Management and Public Cleansing Act and Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes until its disposal is contracted to a waste disposal provider.

Structures

We are conducting activities to reduce and recycle waste generated from our own business activities and reduce the amount of waste that is not reused and destined for final landfill sites. These activities are promoted at the sites where the waste is generated, and the content of these activities is shared across the Kao Group under the Responsible Care promotion system. The Packaging Development Research Lab

takes a leading role in conducting activities to reduce the amount of packaging used, and these activities along with sharing of related information are promoted across the Kao Group.

- ➔p. 183 Responsible Care Activities
- ➔p. 59 Conservation > Packaging

Mid- to long-term targets

Waste-related targets

Index	Scope	2016 target	2017 target	2020 target
Generated waste and other unwanted materials ^{*1}	Kao Group All sites	31% reduction	31% reduction	33% reduction
Final disposal ratio ^{*2}	Kao Group in Japan All sites	0.1% or lower	0.1% or lower	0.1% or lower

*1 Per unit of sales (2005 baseline)

*2 Ratio destined for landfills among the amount of generated waste

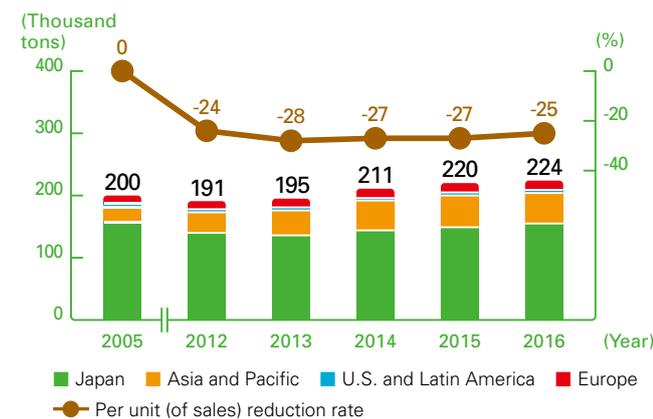
In 2013, we set our 2020 target for the amount of waste and other unwanted materials generated for all sites in the Kao Group as a reduction of at least 0.5 percentage points each year. The baseline year for this target is set at 2005, the same as with other environmental targets. This target is related to the Reduce activities of the 3R's.

We set our target for the final disposal ratio for all Kao Group sites in Japan at 0.5% or lower in 2004 and began related activities. We set the targets of 0.2% or lower in 2007 and 0.1% or lower in 2010 corresponding to our level of activity. We are moving closer to 0% of waste going to final landfill sites. Our current target is to maintain 0.1% or lower final disposal ratio. These targets are related to the Reuse and Recycle activities of the 3R's.

2016 results

1. Amount of waste and other unwanted materials generated

Amount of waste and other unwanted materials generated★ (all sites)



- * Boundary: Through 2014, all Kao Group production sites as well as non-production sites within Japan. From 2015 onwards includes some non-production sites outside Japan as well.
- * Assurance provided for amount of waste and other unwanted materials generated.
- * Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

Due to increased production volumes and added production lines in 2016, the amount of waste and other unwanted

materials generated increased by 4 thousand tons compared to the previous year. The amount of waste generated per unit of sales deteriorated 2 points to a 25% reduction, and did not achieve our target of a 31% reduction. We will continue to strengthen our activities to reduce waste and other unwanted materials generated. Of the amount of waste generated, 19 thousand tons was hazardous waste. No hazardous waste was transported internationally under the Basel Convention.

Waste that was reused or recycled* came to 206 thousand tons (★), with a recycling rate of 92%.

We maintained our target of a 0.1% or lower final disposal ratio for waste. We have achieved our target of zero emissions for the 12th consecutive year since the target was set (all Kao Group worksites in Japan, final disposal ratio of waste generated).

* Includes thermal recycling (heat recovery)

2. Inspection of waste disposal facilities

In 2016, we conducted inspections of 210 waste treatment sites with the cooperation of 193 waste treatment companies.

3. Proper storage and disposal of PCBs

In 2016, we disposed of five waste items containing high levels of PCBs and 51 waste items containing low levels of PCBs. Currently, we are storing PCB-containing waste at the Wakayama Plant, Kawasaki Plant, Kashima Plant, Odawara Complex and the Kumamoto Branch of Kao Customer Marketing.

Collaboration with stakeholders

Many incidents that occur at waste treatment companies when contracting disposal of waste are attributable to the contractor not providing the treatment company with sufficient information on the chemical substances involved. Therefore, we have presented cases at waste seminars sponsored by the Ministry of the Environment with the aims of spreading

knowledge about past cases of successfully improving communication with waste treatment companies and identifying points of improvement in how we communicate information. Thanks to these activities, there were again no incidents involving waste contracted for disposal from Kao in 2016.

Specific initiatives

Promoting efforts to reduce waste (reducing the amount generated and promoting reuse and recycling)

Global

Efforts in raw materials procurement

To reduce waste generated at Kao plants, we are adjusting the delivery volumes and frequency of raw materials from suppliers as necessary.

Initiatives during development, manufacturing and sales

Reducing the amount of boxes used

To contribute to reducing generated waste volumes at retailers, we are working with the understanding and cooperation of retailers to reduce the amount of boxes used in the delivery of products.

Redesigning uniforms

In September 2016, we redesigned the uniforms that our researchers wear. We changed the uniform's color to white to make it easier to notice dirt and stains and to promote awareness of cleanliness among staff and customers. All of the old uniforms (more than 25,000 uniforms, 13 tons) were recycled into material for automobile interiors so as not to generate waste.

Initiatives during product use

Efforts in the Consumer Products Business

We are continuing to reduce the amount of packaging used to deliver Kao products to consumers.

➔p. 59 Conservation > Packaging

We are actively introducing successful cases of implementing the 3R's in packaging at Kao to packaging manufacturers and other companies in the same business fields through the Japan Soap and Detergent Association, the Plastic Packaging Recycling Council and the Paper Packaging Recycling Council.

Efforts in the Chemical Business

Combining molded pulp-shaping technology and high-temperature materials technology, Kao's paper-based runner channel for casting uses recycled paper as its raw material. This reduces the volume of raw materials used to 1/10th and post-use waste to 1/16th of comparable products.

➔For details, refer to Lightweight, Fire-resistant Paper Runner Channel for Use in Casting Manufacture
http://chemical.kao.com/jp/technology/eco/article_05.html (Japanese)

Packaging (DMA, EN1, EN2, EN17, EN27, LA10)

Kao's approach

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

Social issues and Kao's approach

According to the results of a survey on the use and discharge of packaging waste materials by the Ministry of the Environment (FY2015), packaging waste accounts for approximately 55% of household waste, which speaks to the need to make packaging more environmentally friendly.

Additionally, Goal 12 of the Sustainable Development Goals

is "Ensure sustainable consumption and production patterns." Reducing waste based on the 3R's of Reduce, Reuse and Recycle is essential to achieving this goal.

At Kao, we are focused on offering packaging that is both user-friendly and environmentally friendly.

Policies

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

In terms of Reduce, we welcome even minor successes in making products more concentrated and bottles thinner, all with the goal of trimming package weight and reducing the volume of packaging materials used.

Our Renewable initiatives include converting from petroleum-based resins to bioplastics derived from renewable plant sources, such as polylactic acid and bio-polyethylene.

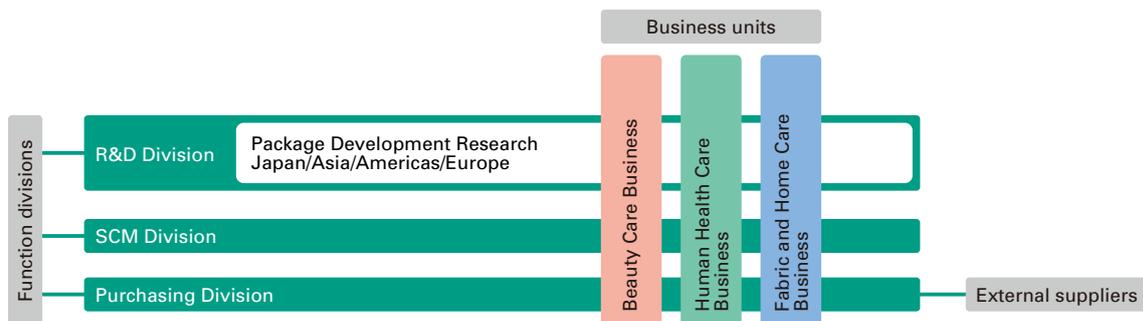
Initiatives for Reuse include proactive development of refill and replacement products to allow reuse of original containers.

Finally, Recycle initiatives involve proactive efforts to introduce and use recycled materials, including recycled paper and resin.

Structures

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

Packaging development and promotion structure



Education and promotion

To promote activities and understanding internally, Packaging Development Research holds packaging review meetings when new and improved products are launched. Members from relevant divisions including business units, the SCM Division and Customer Communication Centers evaluate the

environmental performance of the packaging. In 2016, we are holding packaging review meetings 50 times in Japan, and hold similar meetings at each Group company outside Japan as well.

Mid- to long-term targets

Main activities

- Promote development of packaging that takes environmental impact into consideration
- Promotion of the 4R's in packaging

2017 targets

- Expand introduction of bioplastics in containers
- Convert from plastic to paper use



2016 results

Reduce

- Adopted a new eco-packaging in refill packs for all *Merit*, *Essential*, *Asience* and *Segreta* shampoo and conditioner products
- Reduced the use of plastic in the caps of 570-ml *Flair Fragrance* fabric softener by approximately 23%
- Discontinued use of cosmetic mounting paper in the *Asience* shampoo and conditioner travel set

Renewable

- Adopted bio-polyethylene in shampoo and conditioner containers
- Changed the *Asience Meguri* trial box from a plastic carton to a cardboard box

Reuse

- Adopted a refill pack for *Sofina Lift Professional Firming Serum*
- Adopted a refill pack for *Oriena Medicated Skin Toner*
- Adopted a refill pack for *Sofina iP Bikatsu Power Mousse*

Recycle

- Adopted a recycled PET blend in *Asience Meguri* shampoo containers

Specific initiatives

Reduce: Reducing packaging materials

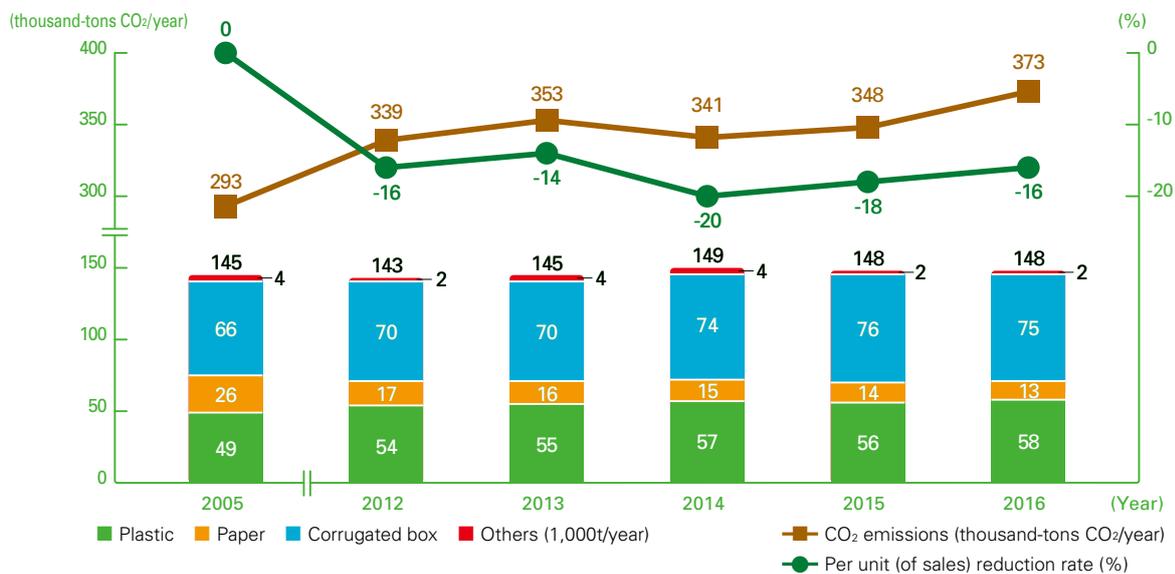
Japan

Reducing packaging materials reduces costs at the same time as it reduces environmental impact. One case in 2016 that illustrates this is reducing the corrugated box materials in the new refill packaging, which reduced CO₂ emissions by approximately 37 tons. There were 14 cases like this in 2016 of reducing costs for packaging materials also reducing

environmental impact. In total, these cases reduced annual CO₂ emissions by approximately 150 tons and saved approximately 100 million yen.

In 2016, we reduced packaging materials for refill products and increased the unit sales of refill products to reduce our packaging materials consumption.

Volume of packaging materials used



*Boundary: Kao Corporation

*Some data has been revised, and the figures for 2012–2015 have been changed.

*Per unit of sales is calculated based on Japanese standards up to fiscal 2015, and on International Financial Reporting Standards (IFRS) for fiscal 2016.

Renewable: Switching to renewable raw materials

Japan

In 2012, Kao began to convert from petroleum-based resins to plant-based raw materials that are renewable and have little environmental impact. Introducing plant-based materials into the refill packaging at this time involved switching about 10% of the container by weight from petroleum-based polyethylene to bio-polyethylene. The bio-polyethylene is made from renewable ethanol obtained by fermenting the waste residue remaining after producing sugar from intentionally cultivated sugar cane. This plastic is attracting attention due to its low environmental impact. The CO₂ emitted when the plastic is incinerated is deemed zero.

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

In 2016, we newly switched to using bio-polyethylene for 20% of the shampoo and conditioner packaging for the *Merit*, *Essential*, *Asience* and *Segreta* series by weight. This can reduce the packaging's CO₂ emissions by about 8% over the

previous packaging.

We will continue switching packaging to renewable raw materials such as bio-polyethylene and polylactic acid.



Shampoo and conditioner packaging that switched to 20% bio-polyethylene by weight

Reuse: Promoting refill and replacement products

Japan

Since we introduced our first refill product in 1991, their number has continued to grow, and as of December 2016 the number of refill products reached 266. We have also continued to make improvements in these refill products according to bottle size, the viscosity of the contents and so on to make refilling packaging easier for the consumer.

Since 1997, the ratio of refill products to unit sales has rapidly increased, and is currently at more than 80% (based on the number of units). For example, the refill ratio for fabric softener and fabric bleach now stands at more than 90%. All of the refill and replacement products sold in 2016 represent a reduction in plastic use of more than 80,000 tons compared to if they had been packaged in original packaging (products in plastic packaging). Based on this ongoing technical development incorporating the 4R's, the total amount of resin reduction since 2009, when the Kao Environmental Statement was released, is approximately 500,000 tons. These activities in packaging processes have reduced CO₂ emissions by approximately 4.5 million tons. This not only reduces our environmental impact, it also contributes to reducing the attendant processing expenses in collection and transportation, intermediate processes, final disposal, recycling and management. Savings in these social costs come to approximately 17 billion yen.

In 2016, we developed a new refill packaging that is both environmentally friendly and easy to use, and adopted it in the refill packs for all *Merit*, *Essential*, *Asience* and *Segreta* shampoo and conditioner products. This new packaging is used for the refill packs of highly viscous products such as shampoos and conditioners. Its film is about 18% thinner than existing products, and the pouring spout is made from about 50%

bio-polyethylene.

Shaped like a bottle, the pack can hold the same volume as existing refill products but in a slimmer and more compact shape. This not only makes it easier to handle in transport and at stores, but also makes it easier to refill quickly without waste or spills. From manufacturing to use and disposal, the new pack reduces CO₂ emissions generated in these processes by about 3%. The refill packs reduce the amount of product remaining in the pack after refilling to approximately one-third of the previous refill pack.

We are also promoting the use of returnable containers. Since 1997, we have been using a take-back system for professional-use products in large plastic containers (10 and 20 liters), such as dishwasher detergent. Approximately 65,000 returnable containers are returned annually, resulting in an annual CO₂ emissions reduction of approximately 400 tons.



New refill packs

Recycle: Introducing recycled materials

Japan

We actively introduce and use recycled materials such as recycled paper and recycled resin. We have been using recycled paper in the cardboard boxes and instructional inserts of many products since the 1960s, including powder-type laundry detergent. The measuring spoon for *Attack* laundry detergent developed in 1987 uses recycled polypropylene resin. The dry sheet material used with the *Quickle Wiper* floor cleaning tool launched in 1994 uses recycled PET material.

In 2016, we adopted an approximately 10% recycled PET blend for the shampoo bottles in the *Asience Meguri* series.



Shampoo bottles using a recycled PET blend

→p. 128 Culture > Sustainable and responsible procurement > Initiatives toward sustainable procurement of paper and pulp

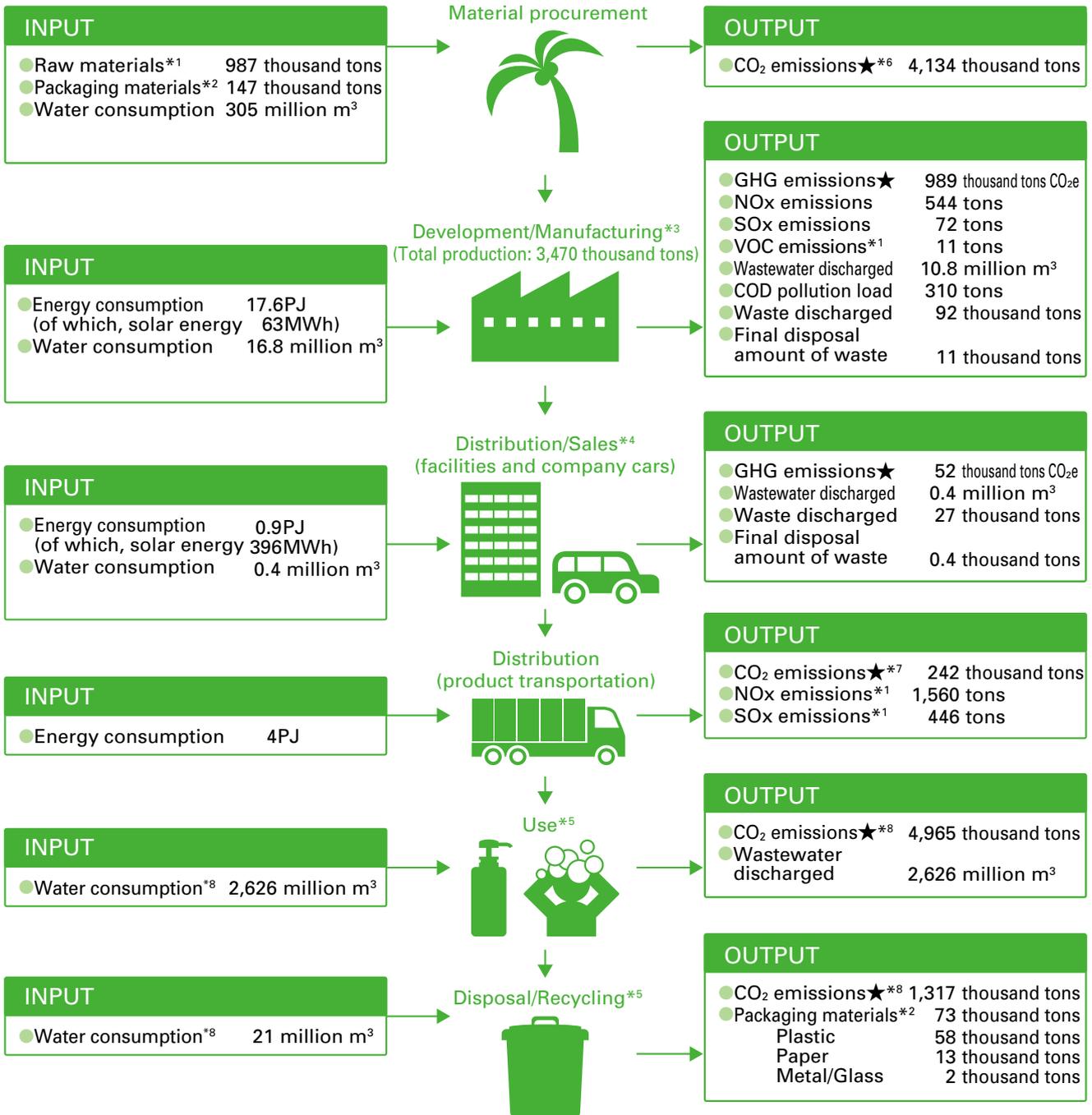
Product lifecycle and environmental impact

(EN1, EN3, EN15-17, EN21-23, EN30)

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

2016 business operations and environmental impact

Global



Boundary of calculations

*1 Figures for Kao Group in Japan

*2 Figures for Kao Corporation

*3 Figures for all production sites

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

*5 Figures for consumer products

*6 Calculated by multiplying the per unit CO₂ emissions in the raw materials production stage (excluding Kao Group manufacturing processes) by the annual sales number of consumer and industrial products in 2016.

*7 Boundary: Consumer products and industrial products. Figures for Japan are calculated based on the Energy Conservation Act. Figures for outside Japan are calculated multiplying the per unit CO₂ emissions during transport (calculated based on figures for Japan) by the quantity sold in each country and the estimated domestic transport distance in each country.

*8 Calculated by multiplying the per unit CO₂ emissions during use or per unit CO₂ emissions during disposal by the annual sales number of consumer products in 2016.

Product lifecycle and environmental impact (EN1, EN3, EN15-17, EN21-23, EN30)

INPUT

- **Raw materials**
The amount of raw materials directly used to manufacture products (excluding packaging materials and fuel)
- **Packaging materials**
Total amount of packaging used for products sold (including corrugated box)
- **Energy consumption [product development/manufacturing]**
Amount of energy consumed at manufacturing sites
- **Energy consumption [distribution/sales (facilities and company cars)]**
Amount of energy consumed at non-production sites and by vehicles (used for sales activities)
- **Energy consumption [transportation]**
Amount of energy consumed during transportation of consumer products (from plants to distribution bases), industrial products, raw materials, etc.
- **Water consumption**
Industrial water, municipal water, underground water, rainwater consumed

OUTPUT

- **GHG emissions**
Total amount of greenhouse gas emissions from sites (seven GHGs defined in the Kyoto Protocol) (in CO₂ equivalent, Scope 1+2)
- **CO₂ emissions**
Emissions from manufacturing raw materials, consuming energy and those generated upon decomposition of ingredients
- **Wastewater discharged**
Amount of wastewater discharged at production sites and consumer product use stages
- **COD pollution load**
Amount of COD pollution load in wastewater
- **Waste discharged and final disposal amount of waste**
Of the waste generated from sites, the amount that is sold or entrusted as waste or recyclable materials to waste treatment companies, and the amount of waste for final disposal
- **Packaging materials**
Total amount of packaging materials (excluding corrugated box) used for products sold
- **VOC emissions**
Total amount of VOCs (volatile organic compounds) emitted into the atmosphere from production sites
- **NO_x emissions**
Total amount of NO_x emissions from smoke-and-soot-emitting facilities and transportation
- **SO_x emissions**
Total amount of SO_x emissions from smoke-and-soot-emitting facilities and transportation

Environmental accounting (EN31)

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

2016 environmental accounting report

Global

- ① The aggregation methods we use comply with the Japanese Ministry of the Environment's Environmental Accounting Guidelines 2005. We also reference the Environmental Accounting Guidelines for Chemical Companies (November 2003) issued by the Japan Chemical Industry Association.
- ② Boundary: Kao Corporation, Kao Group companies in Japan and Kao Group companies with production sites outside Japan.
- ③ See Product lifecycle and environmental impact for environmental conservation results (numerical results).
→ p. 63 Conservation > Product lifecycle and environmental impact

Environmental conservation costs (categories corresponding to business activities)

(Unit: millions of yen)

Categories		Key activities	Inside Japan		Outside Japan	
			Investment	Cost*	Investment	Cost*
(1) Business area costs			1,530	3,817	652	2,754
Breakdown	① Pollution prevention	Air pollution prevention, water contamination prevention	264	1,444	400	1,148
	② Global environmental conservation	Energy conservation	895	549	208	610
	③ Resource circulation	Resource conservation, waste processing and disposal	371	1,824	44	996
(2) Upstream/downstream costs		Plant and equipment for eco-conscious products, packaging recycling	579	2,611	0	69
(3) Administration costs		Acquisition and maintenance of EMS certification, environmental publicity, tree planting within worksites	0	1,183	0	202
(4) R&D costs		Eco-conscious R&D	1,335	3,933	0	61
(5) Social activity costs		Nature and environmental conservation and tree-planting activities outside worksites, donations	7	141	14	10
(6) Environmental remediation costs			0	0	0	11
Total			3,451	11,685	666	3,107

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

(Unit: millions of yen)

Categories	Key activities	Inside Japan		Outside Japan		
		Investment	Cost*	Investment	Cost*	
① Cost related to global warming measures	Energy conservation	895	549	181	193	
② Cost related to ozone layer protection measures	Switch to CFC alternatives	0	0	27	399	
③ Cost related to air quality conservation measures	Air pollution prevention, dust pollution prevention, malodor prevention	13	457	231	451	
④ Cost related to noise and vibration measures	Noise prevention	0	4	7	39	
⑤ Cost related to environmental conservation measures for aquatic, ground, and geologic environments	Water contamination prevention	251	984	161	633	
⑥ Cost related to waste and recycling measures	Resource conservation, industrial waste volume reductions, recycling	950	4,434	44	1,063	
⑦ Cost related to measures to reduce chemical risks and emissions	R&D on products and production	1,335	3,933	0	60	
⑧ Cost related to nature and environmental conservation	Nature and environmental conservation and tree-planting activities outside worksites, donations	7	139	15	83	
⑨ Other costs	Acquisition and maintenance of EMS certification, environmental publicity, tree-planting activities within worksites	0	1,185	0	186	
Total			3,451	11,685	666	3,107

* Cost includes depreciation costs.

Environmental accounting (EN31)

Economic effect associated with environmental conservation activities*1

(Unit: millions of yen)

		Inside Japan	Outside Japan
Details of benefits		Amount	Amount
Revenue	Sales value of valuable resources and fixed assets	435	175
Cost reductions*2	Reduction in costs through energy conservation	185	168
	Reduction in costs through resource conservation	2,033	891
	Reduction in operation costs (maintenance costs, etc. of eco-conscious equipment)	304	716
Total		2,957	1,950

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

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

Environmental communication (DMA, EC7, LA10)

Kao's approach

Kao products are designed for everyday use, in homes around the world. In conducting environmental activities, not only are environmental considerations in the manufacturing processes important, so is raising the environmental awareness of our customers in their daily life. At Kao, we use a variety of approaches in our environmental communication activities. We also consider and take action for the environment together with stakeholders.

Social issues and Kao's approach

All countries and communities, companies and households must work together to resolve the environmental issues presented in the Paris Agreement, adopted at the 21st Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change, and strive to

achieve the Sustainable Development Goals (SDGs).

For this reason, we at Kao reduce the environmental impact of our business activities through collaboration with wide-ranging stakeholders, development of educational programs and awareness-raising activities for employees.

Policies

We conduct "eco together" activities with consumers, business partners and society. Among these, we are proactively involved in society-wide environmental activities.

We believe that communication closely aligned with the values of diverse stakeholders is essential in conducting these

activities, and we are developing and implementing a range of programs for each target.

→ "eco together"

<http://www.kao.com/jp/en/corp/eco/>

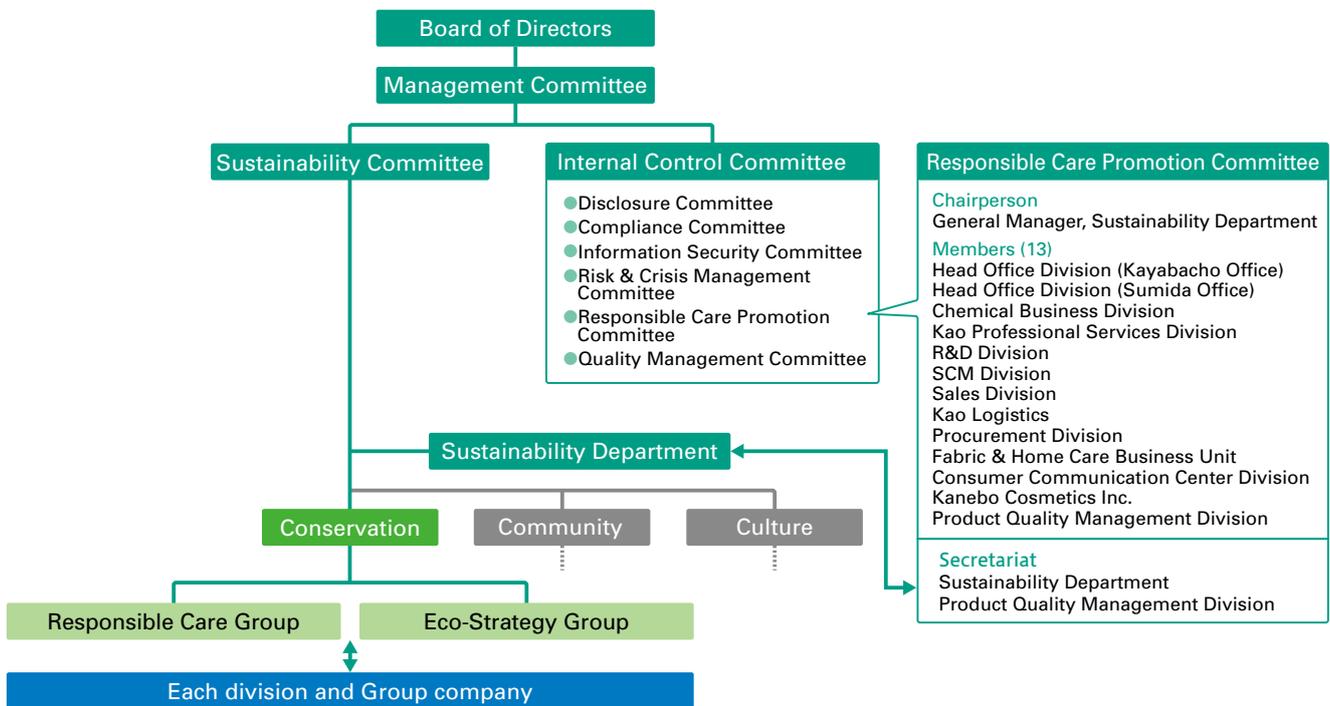
Structures

Kao has established the Sustainability Committee, chaired by the President and CEO, with members consisting of Representative Directors and representatives of business divisions and affiliated companies. The Sustainability Committee discusses communication activities for the key area of Conservation and decides the strategic policy. In addition, Responsible Care (RC) Promotion Committee, chaired by the Sustainability Department Vice President and comprising RC staff from business divisions, manages the PDCA (Plan–

Do–Check–Act) cycle for environmental awareness-raising activities.

Kao Group companies, under the responsibility of Group company presidents, are globally conducting environmental awareness-raising activities through various opportunities to provide environmental information. These are some of the ways we are actively engaging in communication activities with all of our stakeholders.

Environmental communication structure



→ p. 184 Responsible Care Activities/Structures

Education and promotion

Part of our environmental communication involves various educational activities for our employees based on the need for all Group employees to fully understand our thinking.

Environmental education classes

We conduct classes annually for a broad range of employees, including members of management, employees in their second and third year of employment, and Responsible Care staff in all departments.

The classes cover topics including climate change, water risks and biodiversity.

No. of participants in 2016: 468

New employee trainings

We conduct environmental education classes for new employees in the Odawara, Wakayama, Sumida and Tochigi worksites.

No. of participants in 2016: 171

Lectures by experts

We invite experts to give lectures to employees.

In 2016, we invited Dr. Seita Emori, Chief of Climate Risk Assessment Research Section, Center for Global Environmental Research, National Institute for Environmental Studies, to give a seminar on the theme of "Climate Change Risks and the Choice of Humankind: Recent Record-breaking Extreme Weather and Climate Change."

No. of participants in 2016: 148

Participation in environmental exhibitions

We actively participate in environmental exhibitions, where employees deepen their understanding of Kao's initiatives by serving as Kao booth staff and providing information.

→For details, refer to "Specific initiative: Participation in environmental exhibitions"

Mid- to long-term targets

1. Active use of partnerships through collaborations with stakeholders
2. Development and implementation of a communication program closely aligned with the values of diverse stakeholders
3. Development and implementation of an awareness-raising program for employees to fully achieve the commitments of the Kao Environmental Statement



2016 results

Raising environmental awareness through the Kao International Environment Painting Contest for Children: Global

- No. of entries: 13,739
- Paintings exhibited in cooperation with Sumida Ward, Minato Ward and Chuo Ward, Tokyo Prefecture
- Conducted environmental awareness-raising activities centering on exhibiting paintings in Taipei by Kao (Taiwan), reaching more than 4,000 visitors

Society for Sustainable Food & Life Styles, organized by the three parties of Kao, Ajinomoto and E-Square: Japan

Hold study sessions for the purposes of studying and researching consumer habits, and communicating information and providing opportunities to consider together with consumers how to realize more sustainable consumer lifestyles

- Held environmental awareness-raising activities for a total of four days for 21 sets of fifth-grade students and their parents living in Kawasaki City, Kanagawa Prefecture, in collaboration with Ajinomoto Co., Inc., E-Square Inc., and the Kawasaki City Environmental Bureau

→For details, refer to "Collaboration with stakeholders"

Nationwide Cleanliness and Water-saving Initiatives conducted jointly with the Chinese State Environmental Protection Administration (SEPA): Global

- Began in Beijing in March 2016
- Held events to raise awareness about the importance of conserving water at 41 universities in 8 Chinese provinces from April to May 2016
- Held events at each university in June 2016 to announce the results of the activities

Participation in environmental exhibitions: Global

- 15 employees participated in the Eco-Products International Fair (Bangkok)
 - 73 employees participated in EcoPro 2016 (Japan)
- For details, refer to "Collaboration with stakeholders"

Various activities

- Environmental lessons at elementary, junior high and high schools (held for 2,827 students at 32 schools)
 - "eco-together" diaries distributed to 28,575 students at 381 schools
 - Kao Eco-Lab Museum (No. of visitors: 12,707)
 - Environmental and Safety Site Reports issued for 8 plants in Japan and 8 plants outside Japan
- For details, refer to "Specific initiatives"
- p. 48 Conservation > Chemical substances > Providing information on chemical products for sound chemical management
- p. 103 Community > Corporate citizenship activities: Education > 2016 results: 2. Supporting school education through the provision of factory tours

Collaboration with stakeholders

Collaboration with Kawasaki City and an NPO

We conducted the "The future of the earth created by food and living—Let's create our sustainable lifestyle" for a total of four days for 21 sets of fifth-grade students and their parents living in Kawasaki City in collaboration with Ajinomoto Co., Inc. and E-Square Inc. (member companies of the Society for Sustainable Food & Life Styles), the Global Environment and Sustainability Office of the Kawasaki City Environmental Bureau, and the NPO BeGood Cafe. The new environmental education program includes experiments, cooking classes and lectures by experts on the topics of climate change, biodiversity, water resources, resource recycling and food loss, and is designed to prompt

participants to re-examine their own lifestyle and consider what would constitute a future enriched life by looking at the connections between environmental issues close at hand and participants' daily lives.

Endorsement of "Cool Choice"

We endorse the "Cool Choice" campaign promoted by the Japanese government beginning in 2016 to encourage people to make wise choices to reduce greenhouse gas emissions.

→Cool Choice website

<https://ondankataisaku.env.go.jp/coolchoice/index.html> (Japanese)

Specific initiatives

7th Kao International Environment Painting Contest for Children

Global

Basic approach

We have been holding the Kao International Environment Painting Contest for Children since 2010 with the wish of expanding the concept of “eco together” around the world. Children think seriously about the future of the Earth’s environment and steps we can take to conserve it in our daily lives, and then express their ideas in paintings, which we communicate to large numbers of people.

Information communicated by children is thought to be more influential in changing family behavior than information communicated by the government, companies or other outside groups. We believe that holding this contest not only in Japan but also in developing countries lacking environmental education is essential.

In addition, we believe that exhibiting the paintings in cooperation with local governments and NPOs, and not by Kao alone, is more effective at raising environmental awareness.

Entries in the Environment Painting Contest

In 2016, we called for elementary and junior high school students to submit entries in the contest with the theme of “eco together.” We received 13,739 entries (1,407 from Japan and 12,332 from outside Japan) from 45 countries and regions in 2016, surpassing the number of entries in 2015. Of these, 33 prize-winning works were exhibited at the Kao booth at EcoPro 2016 in December, and the top nine winners were invited to an awards ceremony. Akira Kobayashi, who won the “eco together” Planet Earth Grand Prix award, gave a speech on behalf of the winners, where he expressed his happiness at receiving the award and talked about the motif of his work. In an interview session after the awards ceremony, winners from the various countries talked about the environment in their country or region as well as the message of their paintings.



Akira Kobayashi won the “eco together” Planet Earth Grand Prix

Raising environmental awareness through exhibiting paintings

We conducted environmental awareness-raising activities centered on exhibiting past prize-winning works in cooperation with local governments including Sumida Ward, Minato Ward and Chuo Ward in Tokyo Prefecture as well as NPOs in order to communicate children’s messages about the environment to more people. Many visitors to the painting exhibitions planned with the theme of “children of the world painting about the Earth, the environment and the future” reacted to the messages from children with the desire to revisit their own actions. They offered comments such as, “Children are thinking more about the earth than adults are,” and “This was a good way to get us to rethink our actions.” Many men, who are said to participate less in environmental awareness-raising activities, also showed positive reactions to the exhibits.

We plan to continue holding exhibits of paintings at schools and public venues to raise people’s awareness toward the environment through the paintings of children.



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

Environmental communication (DMA, EC7, LA10)

Participation in environmental exhibitions

Global

Kao has participated in the Eco-Products International Fair, the largest environmental exhibition in Asia, since 2006, and EcoPro (Tokyo) (renamed from Eco-Products in 2016), the largest event of its kind in Japan, since the first edition of the fair in 1999 and every year since 2008. Kao employees staff the booths and provide information directly to visitors. This is a valuable opportunity for employees to have fun interacting with customers while promoting understanding of Kao's environmental activities as well as a way to raise the environmental awareness of the employees themselves.

In 2016, approximately 5,000 people visited the Kao booth at the Eco-Products International Fair 2016 held in Bangkok, Thailand. Approximately 12,000 people visited the Kao booth at EcoPro 2016 held in Tokyo, Japan. Employees provided information along with demonstrations, which were met with much surprise and interest by visitors. The events were valuable opportunities to gain awareness for new issues and

increase Kao employees' motivation to take environmental actions.

At the Eco-Products International Fair 2016, Kao received the EPIF 2016 Award in the environmental contest organized by the fair.

Participation in environmental exhibitions in 2016

Exhibition	No. of times participating	Location	No. of visitors to the Kao booth in 2016	No. of employee participants in 2016
Eco-Products International Fair 2016	6 (first participated in 2006)	Bangkok, Thailand	Approx. 5,000	15
EcoPro 2016	10 (first participated in 1999)	Tokyo, Japan	Approx. 12,000	73



Kao booth at the Eco-Products International Fair (Thailand)



Kao booth at EcoPro 2016 (Japan)



Kao (Thailand) President receives the EPIF 2016 Award from the Deputy Prime Minister of Thailand



Kao employees have fun providing information to visitors

Fifth year of water conservation campaign in cooperation with the Chinese government

Global

Kao (China) has conducted the Nationwide Cleanliness and Water-saving Initiatives jointly with the Center for Environmental Education and Communications (CEEC), part of the State Environmental Protection Administration (SEPA) of China, since 2012.

These initiatives encourage people in China to conserve water with the slogan of "Save 10,000 liters of water annually per household." In China, the shortage of water resources has become a serious problem. The Chinese government's promotion of the importance of conserving water aligns with Kao's wish to promote environmental activities that can be done together with consumers in China, including sales of water-saving laundry detergent. Kao has participated in the

initiatives for five consecutive years.

The campaign begins each year in March, with informational sessions held in various cities on conserving water and the importance of water resources. The initiatives were expanded in 2015 to include awareness-raising events held at universities in China. In 2016, these events were held at 41 universities in eight provinces including Shaanxi, Liaoning, Anhui and Zhejiang. An environmental protection contest for university students in China has also been held since 2015, with 59 short film entries and 834 tee-shirt design entries received in 2016. In June, a closing campaign ceremony was held at a university in Shanghai, with awards presented to the contest winners.

Topic

Kao Customer Marketing Co., Ltd. (KCMK) receives the Minister of the Environment's Commendation for Global Warming Prevention Activity

In 2016, the "eco together" activities at Kao CMK received the Minister of the Environment's 2016 Commendation for Global Warming Prevention Activity (Practice and Promulgation of Activities category). The commendation is in recognition of Kao CMK's contributions to practicing and promoting a low-carbon lifestyle by holding environmental awareness-raising events in collaboration with retailers and local governments on the theme of conserving water and electricity and reducing waste. From 2009 when the Kao Environmental Statement was released to December 2015, a cumulative total of approximately 410,000 consumers have participated in Kao CMK events to raise environmental awareness.

The commendation has been awarded since 1998 as part of the Ministry of the Environment's promotion of countermeasures against global warming. Every year in December, the month designated as Global Warming Prevention Month, individuals and groups who have demonstrated exceptional achievements in preventing global warming are awarded the commendation.



Awards ceremony



Introducing "eco together" activities at CMK

Product quality management (14, DMA, PR1)

Kao's approach

As stated in the Kao Group mission, we implement wholehearted *Yoki-Monozukuri* from consumer- and customer-driven perspectives for the satisfaction and enrichment of the lives of people globally. In addition, we are striving for high levels of product safety and continuous improvements in product quality at all stages from raw material selection to R&D, production, distribution and sales, while maintaining a steadfastly consumer- and customer-driven perspective in order to contribute to the sustainability of society.

Social issues and Kao's approach

Kao is committed to delivering revolutionary products to satisfy the heart's desires of our customers, which we achieve by means of exhaustive exploration of all facets of research in fundamental technologies, product development and consumer needs. We will furthermore enhance development of products to solve social issues on an ongoing basis, such as those relating to the Environment, Health,

Aging and Hygiene.

We will also make product quality management more readily visible, as well as promote communication on product quality management with all stakeholders. In these ways, we will facilitate fruition of the changes needed for the solution of social issues through trust and cooperation.

Policies

The foundation of the Kao Group's quality management activities is Kao's wholehearted commitment to consumer- and customer-driven *Yoki-Monozukuri* as expressed in the Group mission, the Kao Way. Kao has implemented consumer-driven quality management activities with the participation of all employees in all phases from raw material selection to R&D, production, distribution and sales.

Basic Policy for Quality Management Activities

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

Structures

At the Kao Group, we employ product quality management systems with company-wide activities, with consistent activities throughout the Kao Group encompassing product stages from development to post-launch as well as R&D, marketing, manufacturing technologies, logistics and sales.

Before product launch, we introduce quality control at every stage, from studies of consumer needs to technological development, commercialization, and production, as well as gate control to comprehensively inspect evidence.

After product launch, we promote company-wide activities in pursuit of constant product improvement and the sincere receipt of consumer and customer feedback. In these ways, we strive to always be highly transparent with the public and to always fulfill our social responsibilities.

In these ways, the Kao Group strives daily to achieve *Yoki-Monozukuri*. Nevertheless, the potential of product quality issues occurring from unforeseen problems and accidents is not negligible.

For this reason, we have put in place the Kao Group Emergency and Serious Issue Response System. All Kao Group companies both within and outside Japan are adopting this system.

Meanwhile, we also maintain a corporate governance system including internal control systems and hold the Quality Management Committee, which is a sub-body of the Internal Control Committee with the President serving as a chairperson.

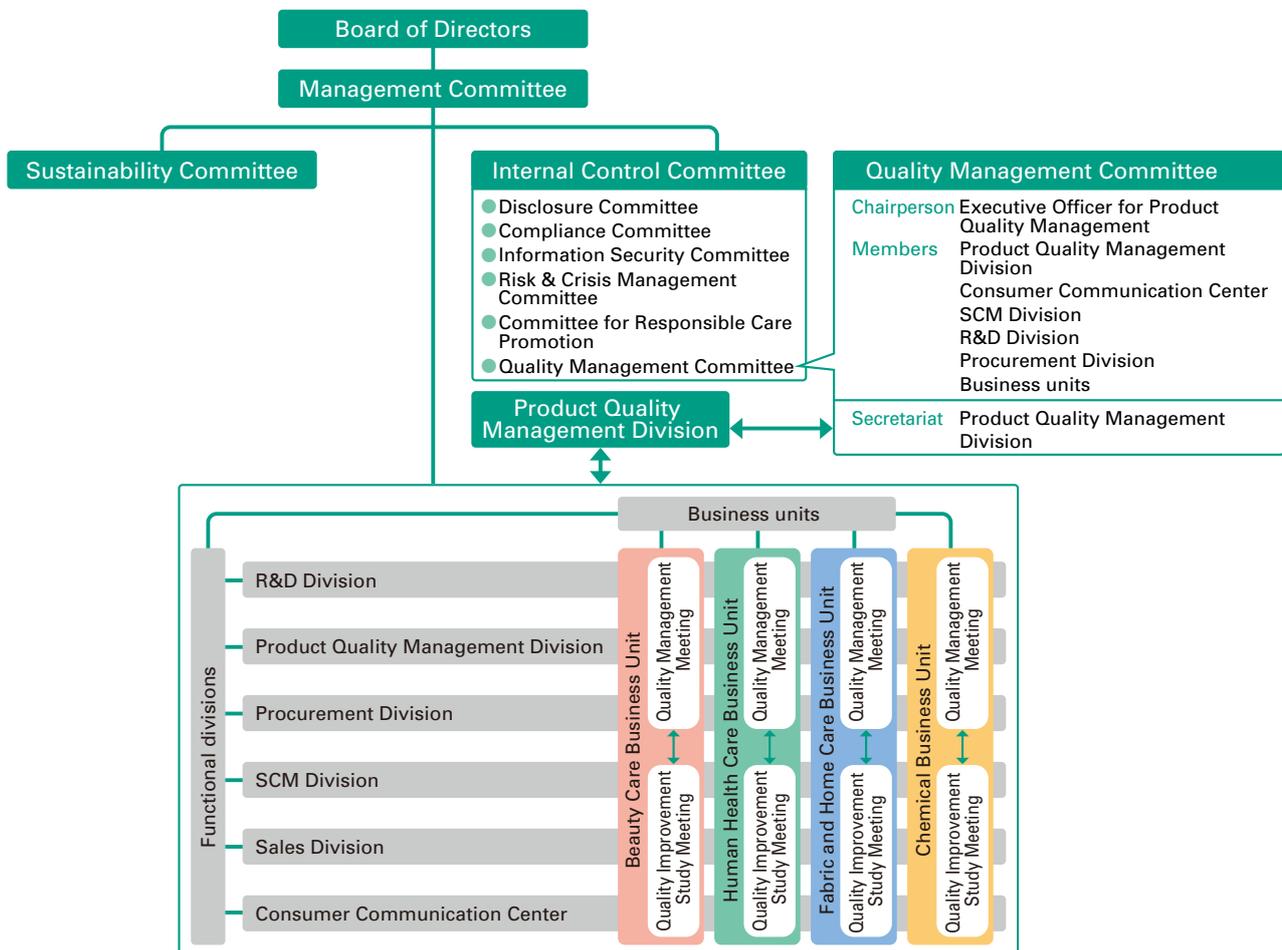
At the Quality Management Committee, we confirm the efficacy and reliability of product quality management activities for the entire company.

We hold Quality Management Meetings at respective business unit levels, confirming quality management activities policy, product quality issues, and the progress of quality management activities, in line with policies put in place by the Quality Management Committee.

Furthermore, representatives of the relevant business divisions (business units, manufacturing, research, consumer response, the Product Quality Management Division) meet at Quality Improvement Study Meetings to explore how to use customer feedback in product improvements and information provision.

We will deploy these quality management activities globally. These company-wide activities are coordinated and promoted by the Product Quality Management Division.

Product Quality Management System



Education and promotion

Through company-wide training and education we facilitate permeation of the Kao Way and the Kao Business Conduct Guidelines, which are fundamental to quality management activities by the Kao Group as a whole.

We also endeavor to provide a full scope of education and awareness-raising initiatives as a part of practical activities for quality management. The Kao Group applies itself to facilitating the permeation and consolidation of quality management activities policy at Quality Improvement Study Meetings, including those at Kao Group companies outside Japan.

We increase awareness of consumer-driven product quality improvements at manufacturing units through Kao's unique QC circle activities, which use the number of consumer claims as indexes.

In addition, we actively implement relevant education and training, including Good Manufacturing Practices (GMP) and all types of ISOs.

We are also working to increase employee motivation with regard to achieving excellence in quality management activities, including by awarding commendations for quality management activities.

Through meetings related to product quality, we further implement consumer-driven quality management activities at our outsourcing partners and raw materials suppliers.

We will increase the scope of consumer-driven quality management on an ongoing basis in cooperation with all of our partners.

Mid- to long-term targets

At the Kao Group, we stipulate mid- to long-term targets such as the below regarding quality management activities.

1. Strive for world-leading levels of product quality through our consumer- and customer-driven approach, applying our collective capabilities, and making full use of the Kao Group's assets.
2. Thoroughly instill integrity and deepen high-level, responsible risk management.
3. Build a strategic quality management system that caters to globalization, computerization, e-commerce, new territories and new businesses.

2016 results

- Enhanced Kao Group cooperation between Japan and other global subsidiaries on quality management activities, including commencement of the joint Japan-China Quality Management Meeting and the Product Improvement Study Meeting.
- Promoted the global deployment of GMP for the Kao Group to further the global integration of manufacturing technologies.
- Furthered quality management activities to respond to changes in the business environment and society, such as import and export management and cross-border e-commerce.

Collaboration with stakeholders

Using customer feedback in *Yoki-Monozukuri*

We use customers' feedback to improve our products, information and services of the Kao Group by swiftly sharing them through the Kao ECHO System.

→p. 84 Community > Communication with consumers > Structures

Participation in industry initiatives

The Kao Group actively participates in activities of industry organization/association in respective countries to ensure that our products can be used with peace of mind in countries throughout the world. Besides working to ensure harmonization with each country's standards for product quality and safety, we also spiritedly engage in activities such as international initiatives relating to the specification of new standards and testing methods, and chemical management.

Specific initiatives

Company-wide consumer-driven quality management activities

Global

In 2016, we conducted Japan-China Quality Management Meetings and Quality Improvement Study Meetings in China to respond to social changes and globalization. We also engaged in various activities, including the posting of product information in Chinese on our websites and providing product descriptions in Chinese via smartphones at shopfronts to respond to the needs of inbound tourists.

We will continue activities to incorporate customer feedback in product improvements. In 2016, we changed the seal on *Attack Highly-Active BioEX* refill packs to enable users to determine if it had been broken by touch. We also adopted a replaceable packaging for *SOFINA Lift Professional Essence*, allowing customers to use every last drop for the cosmetic

product.

We continue to offer responses to queries related to product quality under the name of Kao Official Support (kao_official) on the social media site Yahoo! Chiebukuro as part of our computerization activities. We began to offer responses to queries about our health category products in 2016, in addition to household and cosmetics categories.

Meanwhile, we continued safety management and side-effect reporting following product launches, while also considering labelling for accidental ingestion with the aim of enhancing response at times of serious incidents or safety issues.

Initiatives toward higher levels of product safety

Global

We ensure high product safety and quality at the Kao Group so that our products can be used safely, securely and comfortably through company-wide safety management following product launch in addition to that for technology development, commercialization of products, and manufacturing and sales.

We regularly collect information on legislation inside and outside Japan. We also continually collect information on safety, raw materials selection at the product development stage and product ingredients after product launch.

We evaluate and implement the necessary multifaceted measures for a wide scope of information from within the

industry, from NGOs/NPOs and others, taking into consideration scientific perspectives and social concerns.

In addition, we earnestly listen to all consumer feedback following product launch, confirm specifics, and implement precise safety checks and safety management in collaboration with a network that includes medical professionals and governmental authorities.

We hold regular joint meetings with Kao Group supervisors in Europe and the Americas to reflect on feedback received from consumers and facilitate improvements in our overall levels of product safety from a global perspective.

Conducting quality management audits and self-checks

Global

Kao Group companies in Japan as well as in Asia, Europe and the United States underwent audits by certification bodies for ISO 9001 and the GMP guidelines, maintained their certification, and conducted audit and product quality meetings with internal and external auditors, contract manufacturers, and suppliers of raw and packaging materials.

In addition, the quality management audit and self-check systems have been enhanced. Quality Audit Promotion

Meetings, attended not only by representatives from the Product Quality Management Division, but also representatives from other relevant departments are being held, facilitating the setting of auditing items and the implementation of auditing activities. We also implemented general inspections for cosmetic raw materials in 2016, among other initiatives. We implement self-checks as appropriate with reference to issues that have occurred at other companies.

Universal Design (27, DMA, PR1)

Kao's approach

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 as well as relationships between individuals and society. Kao also aims for barrier-free access to information, meeting the diverse needs of consumers everywhere.

Social issues and Kao's approach

Recently, changes in demographic composition and lifestyles—such as an aging society, more active participation by women in the workforce and other aspects of society, and more men participating in housework and childrearing—are making consumer needs more diverse. Reflecting this situation, our aim is to foster continuing improvement of our products and services by reflecting consumer needs so that everyone—from

people using Kao products for the first time to senior citizens who have been loyal Kao customers for many years—can enjoy a stress-free experience at every stage from the initial process of accessing product information before making a purchasing decision, through purchase and use to disposal.

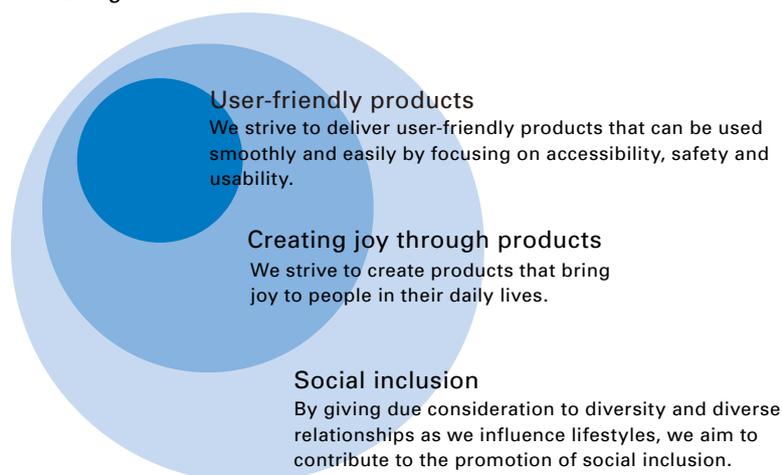
Policies

We at Kao strive to provide products and services imbued with consideration and care for the users in line with our Guidelines of Universal Design (UD) approach: “user-friendly products,” “creating joy through products,” and “social inclusion.” Our aim is for people of all age groups from babies to senior citizens to use our products, so that we can play a useful role in fostering relationships between individuals, and between

individuals and society.

Through the sharing and diffusion of Kao's Guidelines of UD among all employees of the Kao Group, which provides products to people with different values and cultures, we aim to further develop our business operations, both in Japan and worldwide, and create synergy.

Kao's Guidelines of Universal Design

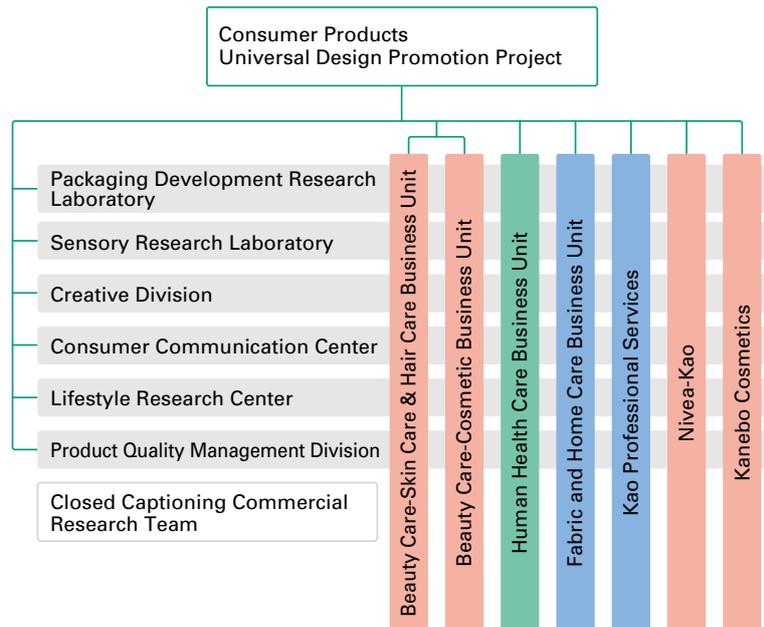


Structures

With Kao's Consumer Communication Center—which acts as a consultation contact point for listening directly to consumers' views and expectations—functioning as the secretariat, the Universal Design Promotion Project (consisting of representative members of relevant divisions and Kao Group

companies in Japan) facilitates the sharing of case studies of successful improvements and implements measures to foster continuing improvement based on a UD perspective, in line with Kao's Guidelines of Universal Design.

Universal Design Promotion Project organization



Education and promotion

Holding Workshops for Promoting Empathy with Elderly People

Kao holds Workshops for Promoting Empathy with Elderly People with the aim of helping Kao employees develop a greater sense of empathy with and understanding of senior citizens. For each of these workshops, a mock single-family home is used, with employees using equipment that provides a virtual experience of what it is like for a person requiring Level 1 Nursing Care to perform daily activities such as housework. By performing home living activities over half a day, Kao employees are able to develop a better understanding

of what it is like to be a senior citizen, including the physical constraints. By actually using products, participants are able to notice issues relating to usability and accessibility.

- Workshops for promoting empathy with elderly people: 11 workshops were held this year
 - Home experience workshops: 9 workshops were held this year, with a total of 85 Kao employees participating
 - Product experience workshops: 2 workshops were held this year, with a total of 29 Kao employees participating

Mid- to long-term targets

Kao promotes the development of products that take diversity into account, and the development of related information.

Main activities

- 1. Implementation of continuous improvement of both new products and existing products from a UD perspective**
- 2. Activities aimed at accelerating the widespread adoption of closed captioning television commercials within Japan**
 - Aiming to realize the trial broadcasting of various company-made programs
 - Participating actively in the efforts of the Closed Captioning Commercial Promotion Council
- 3. Universal Design awareness-raising activities with an external audience**

We will continue to implement awareness-raising activities with an external audience (including in-classroom education [UD lessons], lectures, seminars, etc.)



2016 results

1. Implementation of continuous improvement of both new products and existing products from a Universal Design perspective

- Implementation rate of improvements to new products and existing products from a UD perspective: 71%, 709 items (Boundary: Japan and the Americas)
- Expanding the range of brands for which the new refill packaging is used

We have introduced a new refill packaging that makes refilling easy even for highly viscous products like shampoo and conditioner, starting with Kao *Essential* products in January 2016. Since then, the new refill packaging has gradually been introduced for other Kao brands too, including *Merit*, *Asience*, and *Segreta*. The reaction from customers has been overwhelmingly positive, with comments such as "I was able to refill the container neatly without spilling a drop" and "I used to dislike refilling containers, but now I enjoy it."

2. Activities aimed at accelerating the widespread adoption of closed captioning television commercials within Japan

Kao has been promoting the airing of closed captioning TV commercials in regular TV broadcasts since 2011. So far, a total of around 1,400 commercials featuring closed captioning have been produced (including commercials for

online broadcasting). Commercials for which television broadcasting is not possible are made available on the Kao website.

→Commercials with closed captioning can be viewed on the official Kao YouTube channel:
<https://www.youtube.com/user/KaoJapan/> (Japanese)

3. Universal Design awareness-raising activities with an external audience

- Holding of Universal Design classes ("UD Classes") for elementary school children (In 2016, classes were held at 5 schools, with 411 schoolchildren participating).
- A total of 6 UD seminars were held in 2016, along with 4 special events; 7 UD-related articles were published in newspapers and magazines.
- Special events introducing products that should be useful to cancer sufferers in their daily lives were held twice in 2016.

4. Initiatives to help the visually impaired

- The braille stickers that Kao has been providing since 2001 for use with our household products have been updated.
- In 2016, Kao provided useful information for everyday life in three issues of *Home Life*, a voice-based magazine published by the Japan Braille Library for its members, with Kao employees volunteering to act as narrators.

Collaboration with stakeholders

Forum for exchanging ideas with organizations representing the visually impaired: Japan

- In 2016 Kao and Kanebo Cosmetics each held a forum at which ideas and suggestions were exchanged with organizations representing the visually impaired. The ideas put forward during the forum have been reflected in improvements made to Kao and Kanebo products.

- We continue to collaborate on *Home Life*, an voice-based magazine published by the Japan Braille Library.
- We engage in periodic sharing of information with The Accessible Design Foundation of Japan.
- We provide support for the Tokyo Deafblind Association through the activities of the Kao Heart Pocket Club.

Specific initiatives

Realizing the *Yoki-Monozukuri* spirit through the effective utilization of Workshops for Promoting Empathy with Elderly People

Global

A special feature of the *Beauty Whip Soap* foam cleanser product launched under Kanebo Cosmetics' *Evita* brand is that the foam cleanser is dispensed from the container in the shape of a rose flower. The concept behind the development of *Evita Beauty Whip Soap* was to supplement the product's effective cleaning function of removing dirt while maintaining the moisture of the skin with a feature that helps make daily skin care more enjoyable to encourage people to keep doing it regularly. Therefore, we created a dispenser that dispenses soap foam in the shape of a rose flower similar to the foam on a latte coffee.

All of the members of the product development team had participated in one of Kao's Workshops for Promoting Empathy with Elderly People. This experience made the team keenly aware of the need for a product that would be easy to understand and easy to use for senior citizens (who often tend to find washing their face tiring), but that would also make washing one's face a pleasant experience, helping people start the day in a good mood.

To create a realistic flower shape with petals opening on the outside and a compact bud shape in the middle, the team put considerable work into the development process to give the

foam the right degree of elasticity. The team developed more than 20 different container prototypes before finally succeeding in creating a foam cleanser that kept a beautiful flower shape. Further improvements were made to ensure that the foam had the right density to absorb dirt effectively without creating friction on the skin's surface during cleansing, and to make dispensing the foam as user-friendly as possible. The fragrance was also perfected using a series of over 50 tests. Since the commercial launch of *Evita Beauty Whip Soap*, the product has become an Internet sensation, and has been adopted by consumers of all age groups.



The foam cleanser is dispensed in the form of a rose flower

Updating Kao's braille product identification stickers

Japan

In 2001, Kao began providing Household Product Braille Stickers to make it easier for visually impaired and elderly people who have difficulty reading small text to distinguish between products with similar-shaped containers or to clarify product functionality.

In November 2016, the existing stickers were overhauled in response to the growing number of different product categories, the trend toward more compact containers, and rising safety awareness, with the aim of making the stickers easier to use. The updated stickers embody improvements that were made after visiting the homes of visually impaired consumers, seeing how they actually use the stickers, and listening to their comments and suggestions.

In addition to our Household Product Braille Stickers, since 2006 we have also been providing Cosmetics Product Braille Stickers, and we continue to collaborate with the Japan Braille Library on its *Home Life* voice-based magazine. *Home Life* has around 6,000 subscribers; having Kao employees participate in recording content for the magazine makes it possible to leverage Kao's specialist know-how to provide useful daily living information appropriate for each season of the year. In 2016, the January edition of *Home Life* included a piece on the skin's barrier function, ways to keep your hands from getting too dry in the winter, and ideas for achieving better health through the food you eat. The June edition's content included

advice on hair-washing techniques that are kind to the hair and scalp, strategies for preventing irritating smells and dirt when doing laundry and house cleaning, and strategies for preventing mildew during the late spring and early summer rainy season. The December edition's content included advice on healthy ways to take a bath, techniques for carrying out end-of-year cleaning more efficiently, and advice on how to use braille stickers.



Braille stickers that have the product category and the place of use shown in large letters

Topic

Kao's CuCute One-push Clear Gel container wins an award in the WorldStar Packaging Awards 2016

Kao's CuCute One-push Clear Gel container received an award in the WorldStar Awards 2016 sponsored by the WPO* in Budapest, Hungary. The WorldStar Awards are the world's most prestigious packaging awards; Kao has now received recognition in these awards for two consecutive years. The award-winning container features a measuring panel device integrated into the body of the container, along with a new inner plug design to prevent drips. This user-friendly container, which makes it easy for users to squeeze out the right amount of gel with just one hand, received high praise from the WorldStar Awards judges.

*WPO: World Packaging Organization



The importance of continuity

Yasuyuki Hoshikawa

Representative Director
The Accessible Design Foundation of Japan

As part of my job, I have the opportunity to travel to many different countries within Asia. In January this year, while I was visiting a Vietnamese company based in Ho Chi Minh City that is engaged in the development and sale of daily necessities, the conversation turned to universal design. When I mentioned to them that, in Japan, shampoo containers have notches on the top and side for the benefit of people with visual impairments and people who prefer to keep their eyes closed while washing their hair, they told me that "The shampoo containers sold in Ho Chi Minh City also have notches on them. It's very convenient for users!"

I was delighted to learn that this idea, which can be traced back to efforts first made by Kao in 1991 and has developed into an international standard, is now making life more convenient for people both disabled and non-disabled in other countries, not just in Japan.

With the widespread of body soap, it has become increasingly common for bath rooms in places like hotels and hot spring resorts to have shampoo, hair conditioner and body soap arranged in similar-shaped containers. In August 2012, a suggestion was received from an organization representing the visually impaired, asking

whether it would be possible for body soap containers to be designed to be identifiable just by touching them.

The Japan Cosmetic Industry Association (JCIA), Japan Packaging Institute (JPI), Japan Hotel Association and other relevant organizations all responded positively to this suggestion, and it was decided that body soap containers should feature a Line Type Tactile Cue (in the form of a straight protruding ridge) on the top and side of them. This concept has been formally adopted as part of the relevant Japan Industrial Standard (JIS), and Kao and many other companies have begun producing body soap in containers featuring the Line Type Tactile Cue. As I understand it, Kao was apparently also involved in the consultations that led to the decision to adopt the tactile cue design.

I have been deeply impressed by the efforts made to realize the "reasonable accommodation" (i.e., giving consideration to the individual needs of disabled persons) advocated by the Act on the Elimination of Discrimination Against Persons with Disabilities (which came into effect in April 2016) by seeking to meet disabled persons' real needs, for example by making adjustments to the braille stickers that are provided to make it easier for people with visual impairments to distinguish between different types of containers. Kao's efforts to realize this goal, which represent the continuation of Kao's vision of providing "user-friendly products," have made a particularly strong impression on me.

I sincerely hope that Kao's products—which are relied upon by people not only in Japan but all over the world in their daily lives—will continue to be made available for the use of people of all age groups, including both the disabled and the non-disabled.

Communication with consumers (27, DMA, PR3)

Kao's approach

We continue to use close, in-depth communication with consumers to ensure that customers' feedback can be utilized effectively to enhance our *Yoki-Monozukuri* and the services that we provide, while providing essential lifestyle information to consumers of all ages. In today's era of aging populations, steadily increasing levels of digitalization, and continuing globalization, the question of how best to interact with consumers has become a vitally important question when deciding on consumer communication strategies.

Kao is adopting a forward-looking response to the changes in consumers' living environments and the accelerating digitalization of communication methods, and will continue to proactively develop new measures in this area.

Social issues and Kao's approach

The changes taking place in society are very much reflected in Kao's communication with consumers. For example, there has been a steady increase in the number of inquiries and comments about Kao products received from senior citizens. At the same time, the use of social networking services (SNS) for communication purposes has become increasingly common, particularly among younger people, and a wide range of information is now being exchanged via SNS. In addition, the increase over the past few years in consumption by foreign tourists visiting Japan is itself having an impact on society.

In this kind of society, an "information gap" tends to emerge between consumers and business enterprises; it

becomes more and more difficult for consumers to make reasoned decisions based on their own knowledge.

Kao believes that by endeavoring to provide consumers with fair, accurate and easily understood information, we can help consumers engage in ethical, environmentally friendly consumption behavior. To facilitate communication with as wide a range of consumers as possible, we are working to diversify the channels through which we communicate with consumers, for example by actively providing consumer support on SNS and by establishing a Sign Language Communication Window for hearing impaired customers.

Policies

Kao's Consumer Communication Center serves as our contact point with consumers, not only responding helpfully to specific comments and requests submitted by consumers in an

accurate, quick, and courteous manner, but also gaining a well-developed understanding of actual usage situations through our customer's concerns and lifestyle habits.

Structures

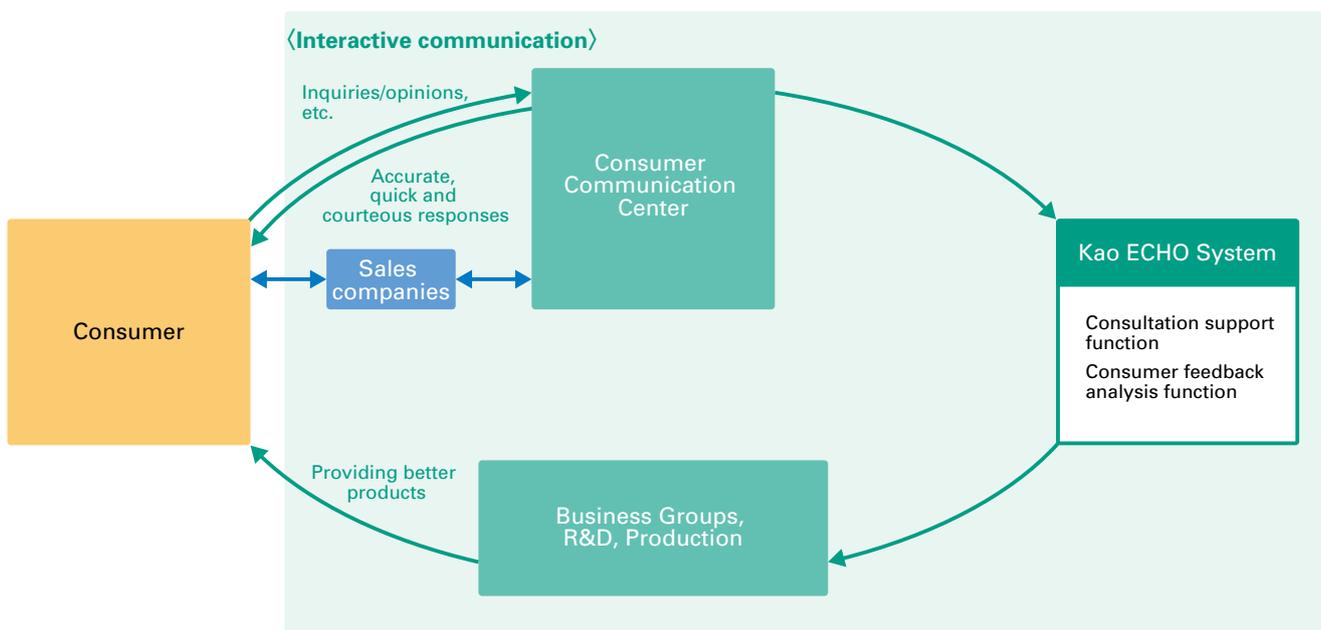
Kao developed the Kao ECHO System database in 1978. This system, which has been upgraded five times in the intervening years, serves as a bridge for effective communication between Kao and its consumers and provides a foundation for the entire company to share and utilize consumer feedback.

The database stores a wide range of information on all Kao products, ranging from basic product information, including product improvement history, to daily lifestyle related information. By accessing this information, staff at the

Consumer Communication Center can respond to inquiries from consumers in a prompt and appropriate manner. In addition, while taking suitable measures to protect personal information, the system compiles a list of all consumer inquiries received each day and makes this data available to all relevant divisions.

Related divisions are able to make effective use of this system by analyzing the trends etc. in inquiries, and use the results in product development, marketing and quality improvement activities.

Structure to reflect consumer feedback in products



Education and promotion

- To realize a further enhancement of consumer inquiry response capabilities, besides implementing periodic assessment of consumer inquiry response capabilities, Kao is also working actively to create training opportunities by, for example, arranging for external instructors to provide training for employees, and by encouraging employees to make use of external training providers.
- In 2016, training was implemented at all nine Kao plants in Japan, focusing mainly on the employees engaged in quality assurance, with the aim of deepening employees' understanding of the activities of Kao's Consumer Communication Center. These training sessions have helped enhance overall quality awareness. Some comments from training participants include, "The training really brought home to me how important it is to listen to the consumer, even in situations that only involve an inquiry from a single customer," and "It was great to be able to hear from customers who have enjoyed using our products; this really helped me feel closer to the consumer. This will encourage

me to do my utmost in our production activities."

- To help ensure appropriate, timely response to consumer inquiries in countries throughout the world, Kao carefully monitors consumer communication activities in each country, using the daily exchange of information by means of e-mails and telephone calls, as well as regular web conference meetings, to share consumer communication response processes and criteria.
- Once a year, Kao holds a meeting that brings together managers from throughout the Kao Group outside Japan who are responsible for consumer communication. Besides providing a venue for the lateral sharing of information about consumer communication content in different countries, this annual meeting also contributes to helping managers deepen their understanding of the Kao Group's strategy for consumer communication, provides opportunities for the enhancement of consumer communication skills, and facilitates the implementation of activities that are global in scope.

Mid- to long-term targets

While collaborating closely with our partner companies, we are striving to enhance the overall level of our consumer- and customer-driven approach and of the capabilities of frontline operations (*genba*) and our integrated capabilities, which together constitute an integrated system, so as to speed up the implementation of our business strategy. To this end, we are committed to the continuing exchange of information with consumers in our role as a trusted partner for consumers, and we will be providing consumers with optimal solutions for their problems, wherever and whenever they need our help.

By promoting effective communication with consumers, we can identify risks at an early stage and take appropriate, timely action to deal with them while also using the collection and analysis of customer feedback to invigorate the Kao Group's *Yoki-Monozukuri*.

Major activities relating to communication with consumers

1. Answering consumer inquiries by means such as telephone or e-mail.
2. Providing information on the Kao website
3. Providing active support for questions posted via SNS
4. Exchanging information with consumer groups and with government agencies responsible for consumer affairs
5. Implementation of exchange activities involving consumer-oriented events



2016 results

1. Answering consumer inquiries by means such as telephone or e-mail: Global

In 2016, Kao Corporation, Nivea-Kao Co., Ltd., and Kanebo Cosmetics Inc. together answered about 220,000 consumer inquiries received via phone and e-mail in Japan (equivalent to 104% of the previous year's total).

In Japan, there has been an increase in inquiries from the elderly regarding product differences and usage, reflecting Japan's aging society, and also an increase in inquiries from men. People aged 60 or over now account for around 40% of all inquiries received. In response to the enactment of the Act on the Elimination of Discrimination Against Persons with Disabilities in April 2016, Kao has introduced a dedicated Sign Language Communication Window to make it easier for hearing impaired customers to submit inquiries. Kao also operates a communication center for users of *Relief* adult diapers, with expert staff helping consumers with their inquiries about adult diapers, continence care, among other issues. Outside Japan, Kao makes effective of Kao's Global ECHO System to ensure effective implementation of quality assurance activities.

➔For details, refer to "Specific initiatives: Providing information on the Kao website"

2. Providing information on the Kao website: Japan

Product information for Kao products can be viewed online on the Kao website using the online Kao product catalog.

➔For more information, see: "Specific initiatives: Providing information on the Kao website"

3. Providing active support for questions posted via SNS: Japan

On Yahoo! Chiebukuro (Japan's largest knowledge-sharing community service), Kao Official Support began providing answers to consumers' questions posted to the service from July 2015. In 2016, a total of around 1,400 questions were answered.

➔For details, refer to "Specific initiatives: Introduction of wide-ranging support for consumers via SNS"

Collaboration with stakeholders

Exchanging information with consumer groups and with government agencies

In 2016, we invited members of consumer groups to visit our plants and museums, encouraging the sharing of ideas.

Interaction activities through consumer-oriented events

We also participate in events held for various consumer groups in response to requests from governmental agencies. In 2016, Kao continued to participate in "Children's Day for Visiting Kasumigaseki" and the "Sumida Consumer Lifestyles Exhibition," providing a wide range of information.

Evaluation of communication with consumers

To verify whether our communication with consumers is satisfactory, we implement regular consumer surveys regarding our consumer communication.

In 2016, we asked consumers to assess the quality of how we answered inquiries submitted by telephone or e-mail, and their level of satisfaction. The results showed that around 90% of respondents were satisfied with our answers of these types of inquiries. We will be using the evaluation comments that we received from respondents to realize further improvements in our handling of customer inquiries, and we will be working to achieve even higher levels of customer satisfaction.

Specific initiatives

Providing information on the Kao website

Japan

All regular product information displayed on Kao's website

Kao's product catalog website displays not only product images and details of the product features, but also the basic information displayed on product packaging labels, including product components, acidity/alkalinity, usage and important points. As of 2016, information for all regular Kao products sold in Japan can now be viewed online.

To accompany the posting of product packaging label information, text has been added to images to make it possible for visually impaired consumers to listen to the information using screen reader software. In addition to product packaging label information, supplementary information has been added where necessary to prevent possible problems from occurring. For example, in the case of hair manicure and other coloring agents, besides providing the same type of product information

that is given on the product packaging, a PDF of the instructions for use can also be downloaded from the product catalog website, along with links to animated films showing correct usage with the aim of preventing incorrect usage. In this way, the Kao product catalog site helps consumers access correct information about products even when they do not have the product with them.

With the rise in smartphone ownership and increased usage of online shopping sites, large numbers of people are making use of Kao's product catalog site. In the future, we will continue to update the information on the site in response to customers' suggestions, and we will continue to provide the support needed for consumers to be able to access information that is easy to understand.

Introduction of wide-ranging support for consumers via SNS

Japan

The increased diffusion and growth of the Internet has led to an increase in the number of people who use social media to make inquiries when they have a query about a particular product. Up until recently, Kao has mainly relied on an approach that involves waiting until consumers get in touch via telephone or e-mail, but there are also a lot of posts on SNS about consumers' problems that Kao can help solve. With the goal of providing even more wide-ranging lifestyle support for consumers, in July 2015 Kao began providing responses to consumers' queries submitted via SNS. On Yahoo! Chiebukuro (Japan's largest knowledge-sharing community service, where many Kao product users post queries), Kao has set up Kao Official Support, providing support for home products (mainly washing and cleaning products), and also for beauty products (including skin care, hair care and cosmetics products). Over the period January–December 2016, Kao replied to a total of about 1,400 inquiries using SNS.

Kao's concrete suggestions in response to those queries inspired consumers to submit comments such as "Being able to get professional advice is a great reassurance" and "I am very glad that Kao now has a presence on Yahoo! Chiebukuro."

One of the key features of social media is that responses can be read not only by the person who made the original query, but also by many other people with similar problems, thereby contributing to the wider dissemination of accurate information.

At the "Social Media Best Practices—Case Studies of Companies Making Effective Use of Social Media" presentation held by the Ministry of Economy, Trade and Industry (METI) in March 2016, Kao's support for consumers on Yahoo! Chiebukuro was given as an example of a forward-looking approach to strengthening business activities through the utilization of social media.

→SNS Best Practice (METI)

http://www.meti.go.jp/policy/economy/consumer/consumer/pdf/sns_best_practice.pdf (Japanese)

Communication with corporate customers (Consumer Products Business) (27, DMA)

In its Consumer Products Business, Chemical Business and Professional Service Business, Kao engages in in-depth communication with corporate customers; this communication helps Kao to improve existing products, develop new products, and enhance service quality.

Kao's approach

Kao Group Customer Marketing Co., Ltd. (KCMK) functions as the sales company for the Kao Group, collaborating with the distribution sector to inform consumers about Kao products and the value they provide. KCMK possesses expert knowledge of consumers and retailers (who are our customers) in every individual market, and strives to earn the trust and support of both consumers and retailers by being a "company that ranks No. 1 in customer satisfaction."

Social issues and Kao's approach

KCMK aims to be a first-mover in responding to the emergence and spread of new retailing models such as e-commerce, the diversification of consumer lifestyles and shopping options, the rise in environmental awareness and health-consciousness, and the aging of the population, while thinking carefully about how society will and should change in the future.

Policies

Kao implements measures aimed at stimulating the emergence of new market segments and revitalizing existing markets. Besides the implementation of various types of surveys and research to develop a clear picture of consumers' purchasing attitudes and purchasing behavior, and the adoption of a consumer-focused perspective in the development of sales

floor and planning activities, we also make proactive efforts to learn about retailers' strategies and problems so as to build stronger relationships of trust with retailers, and submit customized, integrated proposals that incorporate measures to improve the efficiency of the supply chain.

Communication with corporate customers (Consumer Products Business) (27, DMA)

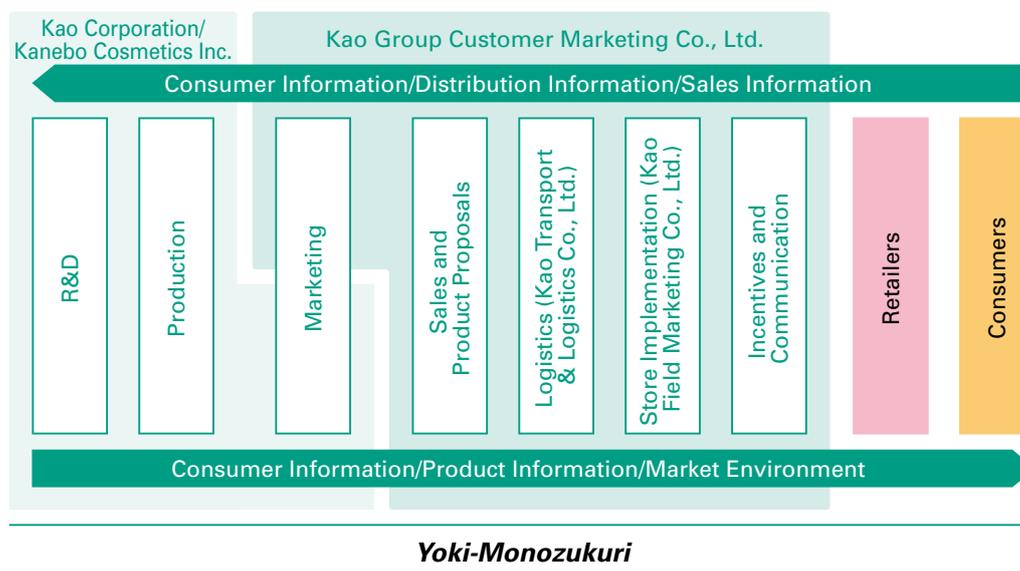
Structures

By making the entire process from R&D through to the delivery of finished products into the consumer's hands a seamless, integrated whole, Kao has been able to realize a system in which the information available to Kao is unmatched—whether in terms of quality, quantity or speed of transmission—by competitors.

The Kao Group's *Yoki-Monozukuri* is not completed until a product has been delivered to the consumer and until the consumer has used the product and been satisfied with it. To help ensure that the sales floor—which link Kao products with

the consumer—are able to effectively communicate to consumers the value that Kao products provide, KCMK provides retailers with suggestions, tailored to the characteristics and needs of each retailer, regarding displays, in-store demonstrations, promotional methods, incentives, counseling methods, etc., and promotes implementation of these suggestions through collaboration with retailers. In this way, KCMK plays an important role as the final stage in Kao's *Yoki-Monozukuri* linking Kao products with the consumer.

Consumer Products Business—communication framework



Education and promotion

Sales floor proposals based on a customer-focused perspective

KCMK has a dedicated division focused on research into consumer-focused sales floor configurations and the development of a scientific approach to promotional methods, together with the establishment of related know-how. The know-how established by this division is developed in the form of standardized materials and IT tools, and proactively utilized in the provision of proposals to retailers.

To foster the realization of shopper-friendly in-store display

Kao Field Marketing Co., Ltd. (KFM) was established in 2001 for the purpose of providing retailer follow-up and sales promotion services for daily necessities and cosmetics products; KFM employs a large number of personnel in the implementation of these activities. Besides facilitating the rapid, precise implementation of in-store display that enable shoppers to “find what they are looking for easily, pick it up easily, and purchase it easily and conveniently,” KFM staff also aims to communicate the special features and appeal of Kao

products to shoppers who are unsure which product to choose.

To facilitate these efforts, KFM implements detailed training to help personnel learn how to arrange Kao products and design in-store display to suit today's constantly changing shopper needs; to realize continued skill-enhancement, tests (including both written tests and practical tests) are held twice a year.

To communicate the real value of cosmetics products to consumers

Beauty advisors and beauty counselors who come into direct contact with shoppers in retail stores undergoes regular training in counseling skills and product knowledge to enable them to effectively communicate the value of Kao products through the provision of counseling from a consumer-focused perspective.

Kao also organizes periodic seminars on counseling skills and product knowledge for cosmetics managers at retail stores.

Communication with corporate customers (Consumer Products Business) (27, DMA)

Mid- to long-term targets

Looking ahead to 2020, we aim to be the “company that ranks No.1 in customer satisfaction” by enhancing the overall level of the proposals we provide to retailers by integrating the sales functions of Kao and Kanebo Cosmetics, implementing sales

floor proposals and communication from a consumer-focused perspective, and sharing and disseminating sales floor arrangement know-how oriented toward the perspective of Asian consumers.

2016 results

1. Enhancing the overall level of the proposals we provide to retailers by integrating the sales functions of Kao and Kanebo Cosmetics

- We have begun the integration of meeting management and information systems so as to facilitate the mutual understanding of the proposals submitted to retailers.
- In regard to the Joint Business Plan, which is agreed and implemented with retailers in relation to half-yearly and yearly numerical targets and strategies, we have begun providing integrated proposals to leading customers.

2. Implementing sales floor proposals and communication from a consumer-focused perspective

- We held fairs on retailers’ premises to showcase Kao’s seasonal products across categories at 16,000 stores throughout Japan.
- To enable consumers to experience and feel for themselves the value and unique features of *Sofina* and Kanebo Cosmetics products, we held events such as “Indeed *Sofina*” and “*Coffret d’Or* Experience” at retailers and convention centers in major cities throughout Japan.
- Besides proposing regular shelf arrangement with the “life

stage” concept, focusing in particular on larger stores, so as to stimulate new demand, we have also succeeded in raising POP productivity at retailers.

- We continued to develop the Universal Design Planogram, which is tailored to meet the needs of the hyper-aging society, and we continued to provide proposals making use of the Universal Design Planogram; the number of stores in which these types of proposals have been implemented has increased.
- ➔For more details, see “Specific measures: In-store display proposals tailored to the needs of the hyper-aging society”
- We implemented environmental communication in collaboration with retailers and government authorities (a total of 205 instances)
- ➔p.73 Conservation > Environmental communication > Topic: Kao Customer Marketing Co., Ltd. (KCMK) receives the Minister of the Environment’s Commendation for Global Warming Prevention Activity

3. Expanding sales support activities in Asia

- ➔For more details, see “Specific measures: Communication with corporate customers in China”

Collaboration with stakeholders

Manufacturing, Distribution and Retail Joint Forum

The Manufacturing, Distribution and Retail Integration Forum is a forum established with the aim of realizing improvements in supply chain management, enhancing industrial competitiveness, and contributing to the enrichment of citizen’s lifestyles, by fostering closer integration between firms in the consumer goods manufacturing, distribution and wholesaling, and retailing sectors. The forum is organized by the Distribution Systems Research Institute (DSRI) and the Distribution Economics Institute of Japan. The Kao Group has

been participating the forum since it was first established in 2011, proactively offering the Group’s views.

In 2016, KCMK was presented with the Award of Excellence in the Supply Chain Innovation Awards for its activities to reduce the return of goods and to optimize distribution. There was high praise for KCMK’s success in getting everyone in the company to work together as one by taking steps to change the attitudes of individual employees.

- ➔For more details, visit the Manufacturing, Distribution and Retail Joint Forum website:
<http://www.dsri.jp/forum/index.html> (Japanese)

Communication with corporate customers (Consumer Products Business) (27, DMA)

Specific initiatives

In-store display proposals tailored to the needs of the hyper-aging society

Japan

With the aim of making it easier for senior citizens (whose numbers are increasing steadily year by year in Japan) to purchase the products they need at the sales floor, in 2010 KCMK implemented questionnaire surveys to explore senior citizens' purchasing awareness, and also eye-tracking studies to analyze which parts of the regular shelves that display daily necessities senior citizens actually look at. Based on these studies, regular shelves designed to make purchasing easier for senior citizens were installed in actual retail stores and observations subsequently carried out. The results from this observation showed that the amount of money spent by consumers increased not only for senior citizens but for all age groups. KCMK calls this new type of sales floor the "Universal Design Planogram" and will be proposing it to retailers as a form of planogram (a visual representation of the layout of a store's products) to make it easier for shoppers of all ages to make purchases.



Eye-tracking study: This study examined the movement of consumers' gaze within a planogram.
(Left) People in their 30s or 40s (Right) People in their 60s or 70s
It was found that senior citizens tend to focus their gaze on the lower shelves.

Communication with corporate customers in China

Global

In October 2016, Kao held the Kao China 2016 Distributors Conference.

The conference was attended by around 100 management executives from distributors in 51 Chinese cities that are expected to begin direct handling of Kao products from 2017. During the conference, Kao engaged in direct dialog with these management executives aimed at the building of a business model that will support sustained growth for both Kao and the distributors.

During the conference, demonstrations were held to introduce Kao products and their special features. Comments from the participants included, "I was able to develop an

in-depth understanding of Kao products" and "I expect to be able to make effective use of what I have learned during negotiations with potential clients." Conference participants were given a tour of the Kao Corporation Shanghai factory, which helped them to develop a better understanding of Kao's quality management for locally made products and the measures that Kao implements to ensure that Kao products can be used safely.

A total of 32 reporters from 29 Chinese media organizations also attended the conference, resulting in an impressive total of 105 reports about the conference in the media (as of October 21, 2016).



The Chairman of the Board and President of Kao (China) explaining the company's business strategy



Researchers giving a demonstration

Communication with corporate customers (Chemical Business) (14, 27, DMA, EN27)

Kao's approach

Kao aims to make a positive contribution to society by creating eco-chemical products that provide real value and by sharing the benefits from the reduced environmental impact with customers. To realize this goal, we are striving to achieve profitable growth by "contributing to the sustainability of society through technology innovation."

Social issues and Kao's approach

As a result of population increases and economic growth, environmental pollution is becoming a steadily more serious problem throughout the world; pollution problems are becoming particularly serious in emerging economies. In response to these issues, reducing the environmental impact of business activities has emerged as an important concept for the chemical industry. Kao is focusing on reducing both the environmental impact of Kao's own product manufacturing operations and the environmental impact relating to the use of Kao's chemical products by our corporate customers.

Emphasizing the two axes of Green Innovation and Eco Technological Solutions, Kao is contributing to the sustainability of society through technology innovation by implementing measures to reduce environmental impact.

Green Innovation

Green Innovation involves creating materials that are competitive yet have low environmental impact.

More specifically, we will draw on our strengths and carry out investment to increase our offerings of natural fats and oils derivatives with high added value. In addition, we will further cultivate the upstream and downstream domains for these derivatives.

For example, we will make use of non-edible raw materials in an effort to resolve the significant social issues of food shortages. We will also focus on downstream raw material development one of our areas of expertise that uses biomass materials in place of fossil materials.

Eco Technological Solutions

We will ascertain customer needs and issues from a perspective of reducing environmental impact and provide solutions that boost customer value through groundbreaking product development.

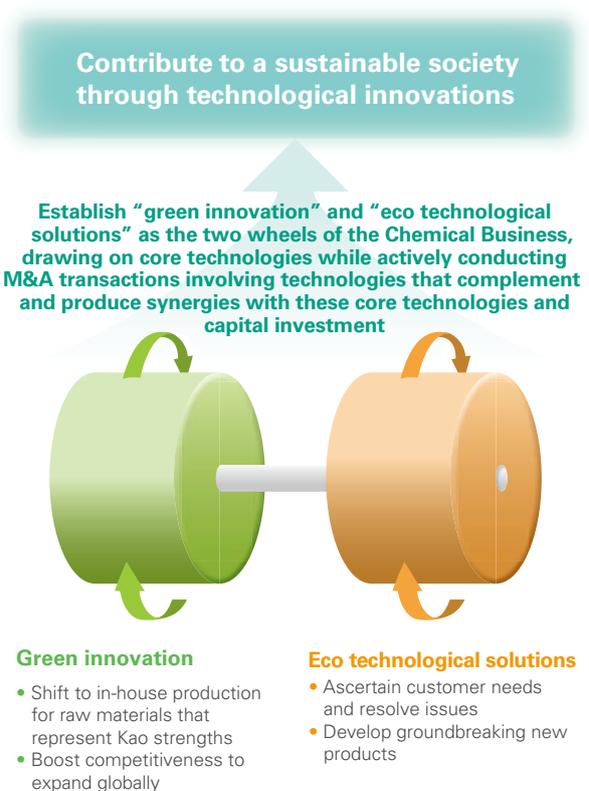
Our success in the development of the world's first VOC-free water-based pigment inkjet ink for digital commercial printing is a representative example of such efforts.

Policies

By selling eco-chemical products, Kao is contributing to the sustainability of society through technology innovation.

Kao continues to enhance its *Yoki-Monozukuri*, which is contributing to a reduction in environmental impact in many industry sectors; Kao is working to raise the share of environmental value-enhancing products on a global scale. To

Green Innovation and Eco Technological Solutions



realize this vision, besides strengthening the relationships of trust that exist between Kao, our customers and the market, we are also building linkages with enterprises and industry associations across a wide range of industries, implementing measures that will enable us to contribute to the sustainability of society through technology innovation.

Communication with corporate customers (Chemical Business) (14, 27, DMA, EN27)

Structures

1. Systems to support development and production of eco-chemical products

- Maximizing the utilization of core technologies such as nano-interface control, polymer function control and precision conversion of oils and fats through essential analysis based on research into fundamental technologies that can help elucidate the structure of substances and phenomena.
- Building a global production system that takes reduction of environmental impact into account.

2. Systems to support the worldwide sale of eco-chemical products

- Domestic sales in Japan: Using sales distributors that possess a high level of specialist expertise, and building a sales network that permits close communication with customers.
- Operational framework outside Japan: The framework comprises the production and sales bases that Kao has established in key countries, and the network that enables these bases to operate effectively.
- Creation of an effective global business support framework through the strengthening of global chemical substance management and import/export management, based on close collaboration with the Quality Assurance Management Division.

Education and promotion

- All Chemical Business managers are notified of the Chemical Business Vision decided on at the semiannual Chemical Business Meeting.
- All Chemical Business managers are notified of environment-related information (including ISO 14001).
- Compliance with local chemical substance laws and regulations by affiliates outside Japan is strengthened through Kao's participation in global Responsible Care (RC) activities.
- Kao implements environmental education for new employees, as well as awareness-raising activities for chemical product sales distributors.
- Education for new Kao employees (once a year)
- Training for sales distributors' new employees (once every two years)
- Information exchanges with sales distributors (once a year)

Mid- to long-term targets

Kao positions chemical products that can reduce the environmental impact at the manufacturing stage and at the use stage as "eco-chemical products." In the future, Kao will promote Green Innovation and Eco Technological Solutions, aiming to raise eco-chemical products' share of all Chemical Business products to over 80%.



2016 results

- We expanded into the digital commercial printing business with water-based inkjet inks based on VOC-free technology (through Kao's acquisition of two companies).
- We held a meeting to exchange information with sales distributors.

Communication with corporate customers (Chemical Business) (14, 27, DMA, EN27)

Collaboration with stakeholders

- In order to strengthen collaboration with companies in Southeast Asia (including suppliers of raw materials for oils and fats) to facilitate promotion of Kao's Green Innovation, Kao held discussions with related companies to clarify Kao's approach.
- Kao is looking for new partners to assist in the promotion of Eco Technological Solutions.
- Kao implements regular exchange of information with sales distributors within Japan and affiliated companies outside Japan in regard to laws and regulations on chemical substances (both in Japan and in other countries) and other eco-related information.
- Kao actively participates in activities relating to chemical substance management regulations organized by related government agencies and industry organizations.

Government agencies

- Kao is a member of the Network for Strategic Response on International Chemical Management, the management board that includes representatives of Japan's Ministry of the Environment, Ministry of Economy, Trade and Industry (METI) and Ministry of Health, Labour and Welfare (MHLW), among others. As a member of the network, Kao participates in exchange and dialogue in relation to international chemical management strategic response several times a year with other companies, organizations and government agencies in Japan and with government agencies and industry organizations in other countries.
- METI and Kao hold meetings twice a year to exchange

information in regard to corporate measures relating to chemical substance management systems.

Industry organizations

- Kao attends the monthly working group meetings of the Global Product Strategy (GPS)/Japan Initiative of Product Stewardship (JIPS) Promotion Council organized by the Japan Chemical Industry Association (JCIA), and contributes to the implementation of GPS activities and the issuing of GPS Safety Summaries.
- Kao participates in the monthly steering committee and technical committee meetings of the Joint Article Management Promotion-consortium (JAMP), contributing to the operation and revision of the industry standard formats that are used for disclosure of information regarding chemicals in products (MSDSplus and chemSHERPA).
- Kao attends the regular meetings of the Japan Surfactant Industry Association and the Japan Cosmetic Suppliers Association, contributing to a variety of activities including those relating to chemical substance management regulations.

→p.41 Conservation > Chemical substances

International initiatives

- Kao is working to strengthen its links with organizations (both within and outside Japan) involved in the promotion of sustainability activities, such as the Roundtable on Sustainable Palm Oil (RSPO).

→p.123 Culture > Sustainable and responsible procurement

Communication with corporate customers (Chemical Business) (14, 27, DMA, EN27)

Specific initiatives

Kao products that contribute to the conservation of the environment

Global

Water-based pigment inkjet ink

In a further application of the pigment nano-dispersion technology that we have already developed, we successfully developed the world's first water-based inkjet ink for use in printing on soft packaging film substrate that features a VOC-free design* with low environmental impact. It is now possible to provide soft packaging film printed matter that combines high quality with low environmental impact. It has also been confirmed that this water-based inkjet ink technology can be applied to water-based gravure-printing ink.

Low-temperature fixing toner

More than half of the electric power used by office photocopiers is consumed in generating heat energy to melt the toner. To reduce the environmental impact of copiers and printers, it is important to develop toner binders that can be melted and fixed at lower temperatures. Kao's polyester resin toner binder was developed to meet these requirements. Unlike conventional toners, Kao's new toner uses a polyester resin binder, which can melt at temperatures more than 30°C lower than conventional toners. This toner is highly effective in affixing to paper, and it enables both high-speed printing and energy conservation.

Visco Top

When undertaking civil engineering work near water (for example, on riverbanks or on the coast), it is vitally important

that measures are taken to protect the water from being contaminated, so as to prevent environmental pollution and deterioration in water quality. In the case of bridge pier construction for long bridges or suspension bridges that cross ocean straits, because the piers are actually built in the river-water or seawater, special underwater concrete that has high viscosity and is resistant to washout is used. Furthermore, when construction is undertaken near underground watercourses, care must be taken not to contaminate the underground water. For work in this kind of water-related environment, the use of additives to increase the viscosity of inorganic materials such as grouting materials and concrete can enhance underwater anti-washout performance. Kao has developed *Visco Top*, a high-performance specialty thickener that provides unprecedented viscosity for grouting materials and concrete, and makes it possible to undertake construction work without causing harm to the riverine or ocean environment. *Visco Top* was used in the removal of high-concentration contaminated water from trenches at the Fukushima Daiichi Nuclear Power Plant.

* VOC-free design:
"VOC-free" is defined as having a level of volatile organic compounds (VOC) emitted during the printing process that is less than 700 ppmC (in carbon conversion terms).
VOC (volatile organic compounds): VOC is a collective term for organic compounds that are volatile and are transformed into gaseous form in the atmosphere. In Japan, VOC emissions are regulated by the revised Air Pollution Control Act.

Cooperation with corporate customers and sales distributors

Global

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

Kao and its key Chemical Business sales distributors continue to share information and hold regular meetings to discuss the latest trends in the various international and domestic laws and regulations governing chemical products, environmental and safety initiatives, order receipt and order placement, among other issues.

Regarding the holding of Information Exchange Meetings with sales distributor personnel responsible for order

placement, following the meeting held at Kao's Wakayama Complex in 2015, in July 2016 an Information Exchange Meeting Regarding Order Receipt and Order Placement was held at Kao's Sumida Complex. A total of 18 personnel from 11 companies participated. The participants discussed issues and expectations regarding order receipt and placement, and as a result of this meeting some improvements were made to order receipt and placement systems.

In November–December 2016, some of the personnel in charge of chemical sales administration at Kao visited key Chemical Business sales distributors to exchange information about the latest trends in chemical product-related laws and regulations (both in Japan and in other countries) and about the role of sales distributors within the supply chain.

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

Communication with corporate customers (Professional Service Business) (DMA)

Kao's approach

Kao Professional Services Co., Ltd. (KPS) aims to deliver cleanliness & sanitation services for all professional needs that provide safety while also helping create enhanced value for client companies. We provide total support for workplace hygiene management in the food services industry, medical and care facilities and other sectors.

Social issues and Kao's approach

Food poisoning incidents and infectious diseases such as influenza and noroviruses remain significant problems for society.

As one of the world's first hyper-aging societies, Japan needs to implement measures to enhance the quality of life of senior citizens requiring care, and to support the carers who

look after them.

KPS is contributing to the resolution of these social issues by providing a combination of related products ("hardware") and health seminars and product use suggestions ("software").

Policies

KPS aims to provide total solutions for hygiene management issues by not only developing and supplying effective products that meet customers' needs and that are environmentally friendly, but also offering Cleanliness & Sanitation Operation Systems that are tailored to individual customers' circumstances.

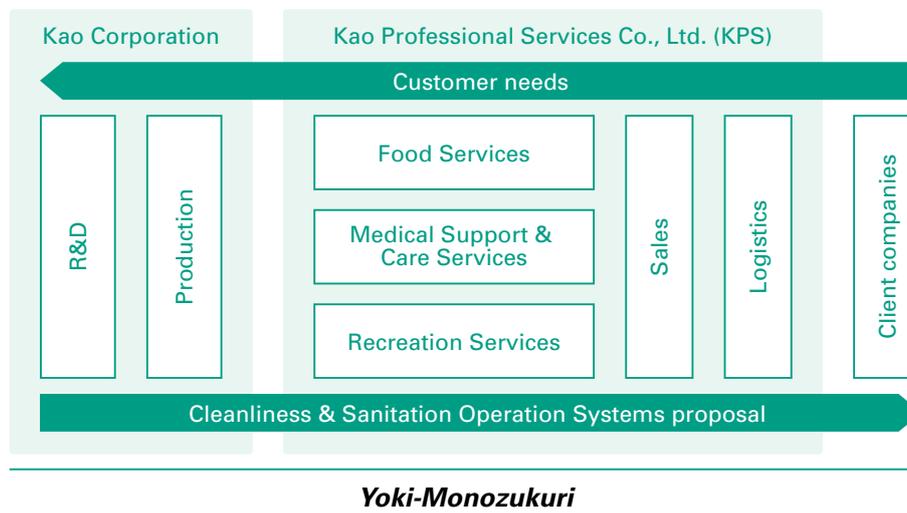
In the Food Services sector (including restaurant operation and food processing), we aim to create safe, secure, and comfortable environments through comprehensive hygiene management.

In the Medical Support & Care Services sector (including hospitals and nursing-care facilities), we reduce the risk of hazards through expert infection control, and offer an environment for gentler nursing care through a combination of products based on our skin care technology and our adult incontinence diapers.

In the Recreation Services sector (including hotel and *ryokan* operation), we strive for total comfort through cleanliness and the ultimate in hospitality through quality guest care.

Structures

Professional Service Business promotion structure



Communication with corporate customers (Professional Service Business) (DMA)

Education and promotion

At KPS, we recognize the need for in-house cultivation of human talent capable of proposing total solutions to tackle issues that affect our customers and society as a whole, and for contributing to the resolution of such issues. Based on this recognition, every year, we hold innovative solution development training programs.

In each field, specific topics are identified, such as Basics of Washing and Bacteria Removal and Elimination, Finger Hygiene, Environmental Sanitation, HACCP*, Contenance and Senior Citizen Skin Care, etc. Training content in relation to these topics is tailored to employees' work experience since joining

KPS, with the aim of spreading solution development know-how and skills more widely within the company, and achieving an enhancement of overall capabilities.

Besides basic training for employees who have joined Kao within the past year, applied training for third- and fourth-year employees is also implemented on an annual basis. In 2016, 30 employees underwent basic training, and 20 underwent applied training.

*HACCP (Hazard Analysis and Critical Control Points)

This is a food hygiene management method promulgated by the Codex Alimentarius Commission, which was established jointly by the UN's Food and Agriculture Organization (FAO) and the World Health Organization (WHO).

Mid- to long-term targets

KPS aims to provide thoroughly professional service, proposing integrated solutions to customers' problems, covering every stage from the initial identification of problems at customers' individual business locations, through to problem resolution.

With the aim of solving sanitation- and hygiene-related social issues, we have set our own targets of "taking measures to build environments in which people can live safely in various living situations outside the home," and "using Kao's unique R&D capabilities and technology to create new value through sanitation and hygiene."

Main activities

1. Provision of total solution systems for hygiene management
2. Implementation of activities to provide support for medical and care professionals in the areas of infection control management and continence care

2016 results

1. Provision of total solution systems for hygiene management

In addition to our provision of total solution systems for hygiene management, we held 202 hygiene workshops in 2016.

2. Implementation of activities to provide support for medical and care professionals in the areas of infection control management and continence care

Working group activities were held on 96 occasions in 32 areas in 2016. A total of approximately 2,050 nurses, certified care workers and other medical and care professionals from 698 hospitals and 115 nursing-care facilities (for a combined total of 813 health care facilities) attended these events.

➔For details, refer to "Specific initiatives: Total Solution Systems for Hygiene Management"

➔For details, refer to "Specific initiatives: Activities to support infection control and continence care provision by medical and care professionals"

Collaboration with stakeholders

With the aim of strengthening infection control management and continence care, KPS has been collaborating with wholesalers and distributors in the medical sector on the holding of Skin and Continence Care Seminars.

The aims of these Seminars are to give Wound, Ostomy and Continence (WOC) nurses the opportunity to learn about types of continence products (such as adult continence diapers etc.) and skin care products that they may not be familiar with and help them to develop a more in-depth understanding in

these areas, thereby helping nurses and carers to implement their work more effectively.

These seminars are held 8–10 times per year as "touring seminars" visiting different parts of Japan. In the future, our aim is to hold these seminars in every prefecture in Japan, with the aim of building and maintaining contact with all of Japan's approximately 2,500 WOC nurses. In 2016, the Seminars were held in 10 prefectures, with around 150 WOC nurses attending.

Communication with corporate customers (Professional Service Business) (DMA)

Specific initiatives

Food Services

Total Solution Systems for Hygiene Management

Japan

In the Food Services sector, KPS implements measures to enhance hygiene management and food poisoning prevention.

We provide total solutions that integrate products and usage methods ("hardware") with operational proposals ("software") and with education. We implement these total solution proposals through close collaboration with client customers (solution users).

We work together with customers to build new hygiene management systems using the following three steps:

① Exploring fundamental issues that are directly linked to food poisoning

We visit customers' worksites to identify fundamental issues that are directly connected to food poisoning, including personal hygiene, food hygiene, cleaning and disinfecting of machinery and equipment and environmental sanitation.

For example, by examining how kitchens are laid out (kitchens are divided into a polluted work area, a clean work area, and a quasi-polluted work area), how employees circulate within the kitchen (which relates to cross-contamination), and how food material cross-contamination prevention and temperature management are implemented, we are able to identify issues that could potentially lead to food hygiene incidents.

We also examine whether there are any issues that, while unlikely to lead directly to food poisoning, could affect the appearance of the facility, such as the methods used to clean glass surfaces, tables, etc.

② Proposing solutions for resolving identified issues

We suggest specific usage methods, management methods and procedures for tackling the issues that affect our customers, indicating clearly which products and methods should be used to implement cleaning and disinfection effectively. We try out the suggested methods on-site, and verify their effectiveness (on-site tests and checks). We make any necessary changes to products or methods, and on-site testing is performed repeatedly until the best possible results are achieved. In these ways, we use the PDCA (Plan-Do-Check-Act) cycle to verify our solutions.

③ Provision of operation manuals, and holding of food hygiene workshops

To ensure that the solution content tailored to the needs of the individual worksite and the test-validated methods can be implemented on-site consistently as standard operating procedures, we provide illustrated, easy-to-understand manuals. In addition, by holding food hygiene seminars for the people who will actually be performing the work, we promote ongoing enhancement of the overall level of food hygiene.



On-site verification and problem identification in a kitchen facility



Example of a "Cleanliness & Sanitation Manual"

Number of food hygiene workshops held each year

Year	No. of Workshops
2012	174
2013	207
2014	195
2015	219
2016	202

Communication with corporate customers (Professional Service Business) (DMA)

Medical Support & Care Services

Activities to support infection control and continence care provision by medical and care professionals

Japan

In the Medical Support & Care Services sector, KPS implements activities to support personnel engaged in infection control and continence care provision in hospitals and nursing-care facilities. One of these activities is the Japanese Society for Infection Prevention and Control "Saizen" Best Practices of which KPS acts as the secretariat, implementing working group activities and holding seminars with the aim of enhancing infection control and continence care provision in hospitals and nursing-care facilities.

Infection Control Best Practices is a method for improving infection control by implementing risk analysis of key aspects of the infection prevention methods specified in medical and nursing care facility standard procedures, then using scientifically based decision-making strategies to compile written procedures and checklists that can then be implemented in practice.

The working group activities involve examination of Infection Control Best Practices methods for different types of hospitals and nursing-care facilities through focusing on individual topics such as "Continence Care: Adult Diaper Changing," "Environmental Readiness: Hospital Ward and Living Room Cleaning."

In research meetings, working group activities were held on 96 occasions in 32 areas in 2016. A total of approximately 2,050 nurses, certified care workers and other medical and care professionals from 698 hospitals and 115 nursing care facilities (for a combined total of 813 facilities) attended these events.

The results of these activities are brought together in collections of case studies on an ongoing basis. The "Nursing-care Facility Best Practices Program Case Studies Collection" is scheduled for publication in April 2017.



Infection Control Best Practices Program research meeting (working group seminar)



Infection Control Best Practices Program Case Studies Collection

Working group activities

	Areas	Instances of implementation	No. of institutions participating	No. of persons participating
2014	30	90	801	2,008
2015	30	89	770	1,900
2016	32	96	813	2,047

Corporate citizenship activities: Overview

(27, DMA, EC7)

Kao's approach

As part of our effort to enrich lives and contribute to the sustainability of society, Kao has adopted the theme of "Creating an environment and developing human capital to nurture the next generation," identifying three key domains—the Environment, Education and Community—upon which to concentrate our activities. Kao also implements employee participation activities aimed at strengthening social involvement by encouraging Kao employees to participate more actively in society, as well as Support for the Arts activities (patronage of the arts and culture) with the aim of furthering the development of the culture that underpins *Yoki-Monozukuri*, and activities implemented through The Kao Foundation for Arts and Sciences.

Social issues and Kao's approach

Besides contributing to the sustainability of society through our *Yoki-Monozukuri*, we also contribute to society more widely as a good corporate citizen through activities that are based on the United Nations' Sustainable Development Goals (SDGs), and that are aimed at helping solve social problems that are global in scope, such as poverty and shortages of educational resources and problems that cannot be tackled through business activity, with the aim of making it possible for people everywhere to enjoy happy, fulfilling lives.

Besides implementing activities in the three key areas of the Environment, Education and Community, Kao also arranges employee participation activities, Support of the Arts activities,

and activities implemented by The Kao Foundation for Arts and Sciences. Kao's employee participation activities are aimed at stimulating greater employee participation in society and furthering the active utilization of human capital through the broadening of employees' perspectives. Through our Support of the Arts activities, activities and activities implemented by The Kao Foundation for Arts and Sciences, Kao provides support for the ongoing development of culture, which is the foundation for *Yoki-Monozukuri*. Through these activities, we aim to make an even greater contribution to society while also contributing to our business operations.

Policies

Activity Guidelines

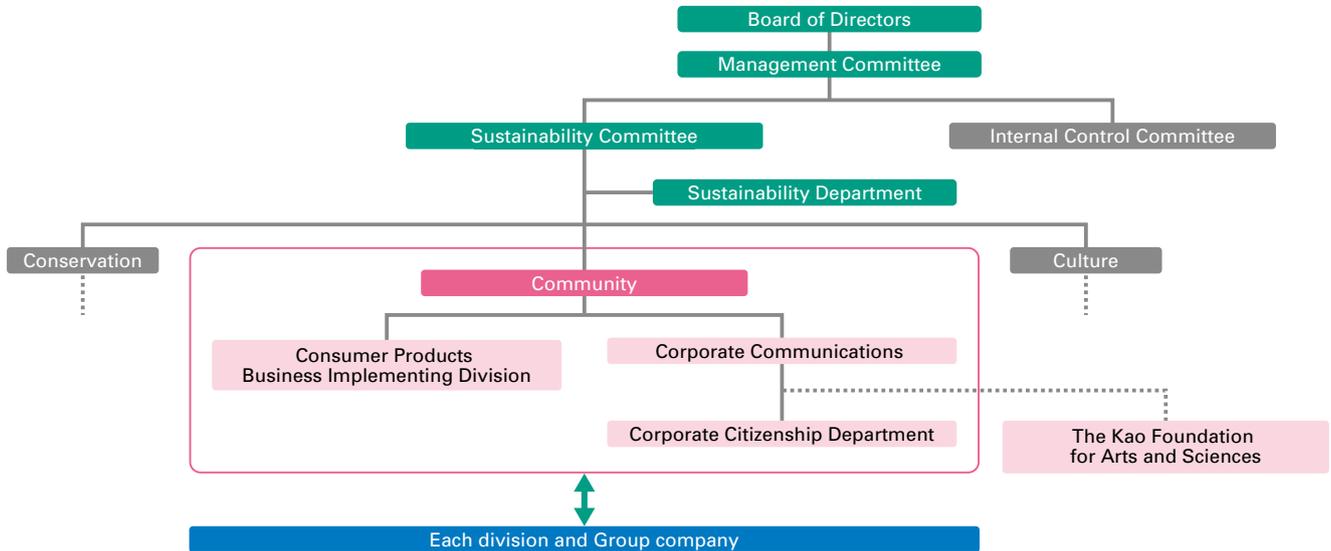
- Conduct activities that play a role in nurturing the next generation
- Conduct activities aimed at contributing to the development of regional communities and culture
- Conduct activities that protect and nurture the environment to promote a sustainable society
- Conduct activities that promote a barrier-free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

Overview of corporate citizenship activities

Theme	Creating an Environment and Developing Human Capital to Nurture the Next Generation		
Key domains (Programs)	Environment <ul style="list-style-type: none"> ● Kao Creating Forests for Everyone ● "FURUSATO" Environment Conservation Project in Northern Thailand 	Education <ul style="list-style-type: none"> ● Kao Earthwatch Teachers' Fellowship ● Supporting science education/ Education programs 	Community <ul style="list-style-type: none"> ● Kao Family Concert ● Kao Social Entrepreneurship Schools
Employee participation activities	Kao Heart Pocket Club, Pink Ribbon Campaign		
Support of the Arts	Tokyo Music Competition, New National Theatre Tokyo Special Corporate Supporters Group, sponsorship for ballet and large-scale art exhibitions		
The Kao Foundation for Arts and Sciences			

Structures

Implementation framework for corporate citizenship activities



Education and promotion

We endeavor to enhance understanding of our activities by disseminating information widely, both within and outside Kao. Internally, we use the company intranet system and employee training sessions to share case studies, while also creating opportunities for employees to participate in relevant activities.

Externally, we make use of brochures describing our activities and the company websites, to inform people about our activities and about the events that we have organized.

Corporate citizenship activities: Overview (27, DMA, EC7)

Mid- to long-term targets

Kao aims to contribute to the development of communities throughout the world through social activities targeting people and themes that cannot be addressed effectively through Kao's business activities.

By encouraging Kao employees all over the world to volunteer to participate in corporate citizenship activities, Kao seeks both to strengthen employees' social involvement and to invigorate the company's human capital.

2016 results

1. Implementation of corporate citizenship activity program

→ For more details, see Kao's Report on Corporate Citizenship Activities:
http://www.kao.com/jp/en/corp_csr/social_activities.html

2. Dissemination of information (internal and external)

Internal

- Provision of activity summaries and information relating to employee participation activities via Kao's intranet, etc. (67 items of information)
- Incorporating explanation of Kao's corporate citizenship activities into initial training for new employees, with 276 new employees participating
- Implementation of participatory projects, including volunteering by Kao employees in areas affected by the Great East Japan Earthquake of 2011, holding of activity presentation meetings, volunteering activities carried out through the Kao Heart Pocket Club (a charitable donation organization composed of Kao Group employees), local contribution activities carried out by individual Kao worksites, etc.

External

- Dissemination of 59 items of information via the company website, Facebook, etc.

→ For more information, see "Kao Group's Corporate Citizenship Activities" report

- http://www.kao.com/jp/en/corp_csr/social_activities.html
- "Sustainability" section of the Kao website > "Environment"
http://www.kao.com/jp/en/corp_csr/social_activities_00.html
- "Sustainability" section of the Kao website > "Education"
http://www.kao.com/jp/en/corp_csr/social_activities_01.html
- "Sustainability" section of the Kao website > "Community"
http://www.kao.com/jp/en/corp_csr/social_activities_04.html
- "Sustainability" section of the Kao website > "Employee Participation Activities"
http://www.kao.com/jp/en/corp_csr/social_activities_03.html
- "Sustainability" section of the Kao website > "Support of the Arts"
http://www.kao.com/jp/en/corp_csr/social_activities_02.html

Collaboration with stakeholders

Kao's corporate citizenship activities are implemented in collaboration with many different stakeholders, including NGOs and NPOs. By ensuring opportunities to exchange information regularly with implementation partners in key corporate citizenship projects, Kao is able to monitor program implementation status and make improvements where necessary.

Meanwhile, Kao receives regular activity reports from the NPOs and other organizations whose activities Kao supports.

By helping to deepen understanding of the social issues that represent the background to the activities, and of the social impact that the activities are expected to have, these reports assist in contributing to the realization of Kao's vision of enriching people's lives. These reports are reflected in activity implementation, as appropriate. For example, on the basis of feedback received, Kao has adjusted the scope of approved uses for donations and provided support for longer periods, rather than just periods of one year.

Specific initiatives

Initiation of a project to improve school sanitation in Vietnam

Global

As part of our medium-term business strategy, Kao is seeking to expand the scope of our business activities in Asia. One of the countries where we are working to grow our business is Vietnam; however, because of the significant income gap, there are many people in Vietnam who Kao cannot reach through its business activities. Sanitation and hygiene conditions in Vietnam's rural and mountainous districts and districts with large ethnic minority populations tend to be unsatisfactory, and chronic diarrheal and other diseases cause problems for children's health and impede their development. To provide support for these people to help them improve their quality of life, Kao is aiming to make a contribution in relation to the sixth of the United Nations' Sustainable Development Goals (SDGs): "Ensure access to water and sanitation for all." In 2016, Kao began support for the UNICEF project in Vietnam's An Giang Province.

An Giang Province is located on the border with Cambodia. The population includes ethnic minority groups. As much of the land is low-lying, the environment is particularly vulnerable to the impact of climate change, for example flooding. In May 2016, Kao Group personnel visited the area. They found that many homes lacked toilets, and that schools only had two or three toilets (which were often unusable) for every hundreds of pupils. In response, Kao has launched a project to improve school sanitation, which includes efforts will be made to improve the sanitary environment of school toilets and hand-washing facilities, while also teaching the children about the importance of hand-washing and imparting basic sanitation

knowledge, so that the children can then expand the communication to their families and communities.

This project plans to reach 35,000 children at 60 schools over a five-year period. The local government authorities in An Giang Province attach considerable importance to the sanitation environment in schools and in local communities, and have high hopes as to what can be achieved with Kao's support.

Kao will continue to bring together organizations in different sectors to implement activities that can help children to grow and develop healthily.



A toilet used at a kindergarten

Corporate citizenship activities: Education (DMA, EC7)

Kao's approach

Kao believes that first-rate education and academic learning is vitally important for the cultivation of a society with a rich culture that can be passed down to future generations. This is why Kao has positioned education as one of the key areas for its corporate citizenship activities, and why Kao is implementing activities aimed at providing support for children's healthy growth and development.

Social issues and Kao's approach

The sharing of advanced knowledge and the creation of innovative new ideas have a vital role to play in solving global-scale issues in society, such as the formulation of policies to combat global warming and infectious diseases.

Kao uses its in-house resources and its unique strengths to

provide educational support to instill good living habits in children, to help cultivate the people who will lead the development of science and technology in the future, and to cultivate leaders who can exert a positive influence on children.

Mid- to long-term targets

1. Instilling good living habits in children
2. Supporting school education through the provision of factory tours
3. Cultivating the people who will lead the development of science and technology in the future
4. Cultivating leaders who can exert a positive influence on children

2016 results

1. Instilling good living habits in children:

Visiting schools to give education programs

- A total of around 1,090 Kao employees participated in this activity
- Kao employees visited 205 schools in 46 prefectures in Japan, giving awareness-raising lessons to around 15,450 schoolchildren (Since this activity was first launched in 2009, a total of around 92,000 children have taken these lessons)
- A total of 2,043 sets of teaching materials were provided to schools
- A total of 10 training sessions were held for educational professionals

→p.13 "Helping children's development while having fun: Learning hygiene habits for good health"

2. Supporting school education through the provision of factory tours

- Kao began offering tours of the Odawara Complex
- A new program was established involving tours of Kao Chemical Corporation Shanghai
- Total number of elementary school students in Japan visiting Kao facilities in 2016: 18,280 schoolchildren

3. Cultivating the people who will lead the development of science and technology in the future: Support for science education

- Kao organized a study tour for the prize-winning schools of Japan Science & Engineering Challenge (JSEC) 2015 (March 2016)
- Kao provided sponsorship for Japan Science & Engineering Challenge (JSEC) 2016, and presented the Kao Award and Kao Special Incentive Award as part of JSEC (December 2016)

4. Cultivating leaders who can exert a positive influence on children: Kao Earthwatch Teachers' Fellowship

- A total of 10 teachers participated in 5 projects
- An activity report meeting was held in November 2016

→For more information, see Kao's "Report on Corporate Citizenship Activities"
http://www.kao.com/jp/en/corp_csr/social_activities.html

Specific initiatives

Commencement of a new project in collaboration with Japan's National Museum of Emerging Science and Innovation (Miraikan)

Japan

Kao has launched a new project in collaboration with Japan's National Museum of Emerging Science and Innovation (Miraikan), with the aim of helping cultivate the researchers and technical experts who, in the future, will be involved in developing technologies that can help people live rich and fulfilling lives in harmony with nature and the Earth. As the first stage in this project, Kao researchers acted as instructors—under the theme of “What washing can achieve—Clean, beautiful skin!” in the Miraikan “Scientist Quest” activity held on August 23, 2016.

In the future, we will be furthering our collaboration with Miraikan, bringing together the research findings that Kao is able to provide as a supplier of products that underpin people's daily living activities with Miraikan's communication expertise and extensive networks, working together on the development and implementation of programs to cultivate high-quality researchers and technical specialists for the future. Eventually, we intend to expand the scope of these activities to include other industries and other countries, to foster a richer humanistic approach based on a broader perspective.

Sponsorship for JSEC to help support science education for senior high school students

Japan

Japan Science & Engineering Challenge (JSEC), which is organized by the Asahi Shimbun Company and TV Asahi Corporation, is a contest of independent science and engineering research targeting high school and technology college students nationwide, with the goal of nurturing world-class scientists. Kao supports JSEC as part of support for high school science education, and each year presents outstanding projects with the Kao Award and the Kao Special Incentive Award. The review process for selection of the award-winners is based on a reading of the participants' papers by Kao researchers, and by attendance at the students' presentations.

The award-winning schools were invited to participate in a study tour arranged by Kao, at which students had opportunities to visit Kao facilities and engage in discussions with Kao researchers, thereby providing support for senior high school students' education and career planning.

Projects implemented in 2016

- Kao organized a study tour for the award-winning schools in JSEC 2015 (March 2016)
- Kao provided sponsorship for JSEC 2016, and presented the Kao Award and Kao Special Incentive Award as part of JSEC (December 2016)

2016 results

The Kao Award and Kao Special Incentive Award were presented at JSEC 2016

- Kao Award:
“Enhancing the Efficiency of Fan-type Propellers—Simple Surface-finishing That Can Change Wind Flow” by Kotaro Tabuchi (Nanzan School Corporation Nanzan Boys' Senior High School)
- Kao Special Incentive Award:
“How the Giant Water Strider (*Aquarius elongatus*) Responds to Ripples on the Water Surface” by Aya Nobe, Norika Kondo and Sachiko Fukuzawa (Nagasaki Prefectural Nagasaki Nishi

High School)

“*Utricularia Sandersonii*, a Carnivorous Plant Capable of Catching Insects Underground” by Miou Yoneda and Kosei Masumura (Yokohama Science Frontier High School)

A study tour was held

Kao organized a study tour for the prize-winning students from Ichikawa Gakuen Ichikawa Senior High School who won the Kao Award at JSEC 2015 and the students from Chiba Prefectural Chiba Higashi Senior High School who won the Kao Special Incentive Award at JSEC 2015. The participating students were able to engage in in-depth discussion with Kao's researchers, through lively Q&A sessions and other interactions.

Future projects

Kao intends to arrange a study tour for the prize-winning schools from JSEC 2016, and to provide special sponsorship for JSEC 2017.



Study tour for the prize-winning students from JSEC 2015—Q&A session following a research presentation

Providing support to help girls with their concerns about how their bodies are developing

Global

For more than 30 years, ever since launching its first sanitary products in 1978, Kao has been implementing activities to provide support for girls who are beginning menstruation as well as their families and elementary schools. Currently, the main focus of these activities is on the worldwide distribution of sets of teaching materials linked to the beginning of menstruation, and on the operation (within Japan) of a website providing related information.

Kao launched a website in 2003 designed to provide easy-to-understand explanations about how the body changes during puberty and about menstruation. A wealth of

information (provided by doctors and other experts) is disseminated via this website.

In addition, starting from June 2016, Nifty Corporation, Wacoal Corp. and Kao's *Laurier* brand began collaborating on the provision of content, aimed at female elementary school and junior high school students who are worried about the changes that puberty will bring, using a kid-centered discussion section of the Kids@Nifty website.

In the future, Kao will continue to disseminate information to help support children's healthy growth and development.

Corporate citizenship activities: Community

(DMA, EC7)

Kao's approach

Kao believes that being able to live in harmony with a wide variety of different communities has an important role to play in the building of a sustainable, better society. This is why we have positioned Community as a major focus of our corporate citizenship activities, and why we continue to implement activities in collaboration with local communities around the world and with NPOs and NGOs.

Social issues and Kao's approach

With the aim of working together with communities of all kinds in today's increasingly diverse world to build a better society, Kao collaborates with local communities, NPOs and NGOs to address issues that cannot be tackled directly through Kao's business activities, including helping solve social issues affecting local communities and contribute to the reinvigoration of culture and society, as well as providing support in relation

to social issues for specific communities, such as support for disadvantaged groups and support for communities that have been affected by natural disasters.

By encouraging Kao employees to participate in these kinds of activities, Kao aims to help its human capital fully develop its potential, while making a further contribution to both society and business development.

Mid- to long-term targets

1. Reinvigoration of local communities
2. Support in relation to social issues for specific communities
3. Promoting the participation of Kao employees in social activities

2016 results

1. Reinvigoration of local communities

Kao Family Concert: Japan

- Concerts were held in Sakata City, Yamagata Prefecture, and in Mashiko-machi, Tochigi Prefecture.

2. Support in relation to social issues for specific communities

Support for the cultivation of social entrepreneurs: Japan

- Kao decided to support two groups, with experienced entrepreneurs offering advice and opportunities to realize business growth.
- A meeting for the exchange of views with Kao employees was held for the purpose of presenting the report on results achieved by supported groups in 2015 and kicking off support for the groups receiving support in 2016.

Disaster relief and recovery support activities: Global

- Kao passed on monetary donations from the company and its employees, donated Kao products, delivered sets of living essentials to people living in temporary housing, and donated part of the proceeds from sales of Kao products (Kumamoto Prefecture, Japan).
- Kao employees made visits to people living in temporary housing, and provided support for individuals playing a leading role in recovery efforts (Tohoku region, Japan).
- Kao provided support in the form of material supplies, and donations to help people affected by Typhoon No. 10 (Iwaizumi-cho and Kuji City, Iwate Prefecture, Japan).
- Kao donated funds to the Haiti Hurricane Relief Fund, etc.

3. Promoting the participation of Kao employees in social activities

Kao Heart Pocket Club: Japan

- Decisions regarding what types of support to provide were made by the Heart Pocket Club steering committee (which meets regularly) and by the Emergency Response Committee (which meets when a disaster has occurred).
- The Heart Pocket Club implemented Local Support, providing support for groups involved in community activities in Tochigi, Wakayama and Ibaraki prefectures where Kao worksites are located.
- The Heart Pocket Club also donated funds through the Mirai Pocket Fund, which supports larger-scale activities.

Pink Ribbon Campaign: Global

- Over the period October–November 2016, leaflets were distributed at cosmetics counseling corners etc. in 9 countries and regions.
- Kao set up a Pink Ribbon-related website and published related video content, provided a Pink Ribbon app for iPhone, made donations based on the quantity of products purchased and number of instances of self-checking performed, and provided sponsorship for related events (Japan).
- Kao employees wore pink ribbon badges to help spread the message of support for the Pink Ribbon Campaign.

➔For more details, see Kao's Report on Corporate Citizenship Activities
http://www.kao.com/jp/en/corp_csr/social_activities.html

Specific initiatives

Activities supporting areas affected by the Kumamoto Earthquakes and the Great East Japan Earthquake

Japan

As a manufacturer of daily essentials, the Kao Group is providing support for the victims of natural disasters from a mid- to long-term perspective, beginning with the provision of emergency support immediately after each disaster in the form of material supplies and monetary donations, and following this up with support in the form of donations of household essentials to assist in the recovery of areas affected by the disaster, along with emotional support, reconstruction support for affected areas.

1. The Kumamoto Earthquakes

The earthquakes that occurred in Japan in April 2016, with their epicenter in Kumamoto Prefecture, caused extensive damage. Kao began the implementation of various support activities immediately after the earthquakes, with the aim of helping people living in the affected areas get their lives back to normal as soon as possible.

Donation of Kao products and provision of monetary donations

At the request of the Kumamoto Prefectural Government, Kao provided its products—including baby diapers, adult diapers, sanitary napkins, hand soap, etc.—to areas that had been seriously affected by the earthquakes.

In addition, Kao donated 10 million yen through the Japanese Red Cross Society, and Kao employees donated 200,000 yen through the Kao Heart Pocket Club, to the Central Community Chest of Japan for use in funding volunteer activities in the affected areas.

Delivery of boxes of household essentials to families living in temporary housing

Kao has been delivering Kao Daily Necessities packages, which contain 11 assorted daily-use items, to evacuee families living in temporary housing built in Kumamoto Prefecture by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT).

On relocating from evacuation shelters to temporary housing, many evacuees are concerned that they will not receive the same level of support that they had been receiving in the shelters. Wishing to help, Kao delivered the types of daily necessities that local people had been expressing a particularly strong need for.

The supplies are packaged into boxes by Kao employee volunteers. Employees of Kao Customer Marketing Co. Ltd., a Group company that manages Kao's sales operations, have played a major role in delivering the boxes of supplies to temporary housing.

Donation to Kumamoto Prefecture of part of the proceeds from sales of Kao products

In November 2016, just over six months after the Kumamoto Earthquakes, Kao presented donations totaling 10 million yen to the Kumamoto Prefectural Government.

The money included in these donations had been raised over the period between August 1 and September 15, 2016, through the implementation of the "Let's Help Kumamoto by Getting Everyone in Kyushu Working Together" project, which involved collaboration across all of the Kao retailers in the Kyushu and Okinawa regions. The Kao Group, Kao product retailers and Kao product consumers joined forces to arrange for part of the proceeds from the sales of Kao products to be donated. A total of 45 companies and 2,148 individual stores participated in this project.

2. The Great East Japan Earthquake

Immediately after the Great East Japan Earthquake of 2011, Kao provided donations and goods to support the emergency response efforts. Since then, Kao has continued to provide support tailored to the changing needs of people living in affected areas. Currently, the main emphasis in Kao's activities is on emotional support and industrial revival. Kao employees make visits to people living in temporary housing, and Kao provides support for individuals who are playing a leading role in recovery efforts.

In addition to Kao's own efforts, in the future Kao will continue to collaborate with government agencies, other business enterprises, NPOs and NGOs etc. to provide ongoing support to people living in the affected areas.



Kao employees participating in a third round of volunteer support for agriculture in Minamisanriku-cho

Corporate citizenship activities: Community (DMA, EC7)

Kao Thailand: Happy Toilet Project

Global

Kao Thailand implements various measures aimed at contributing to the development of a sustainable society and to the protection of the environment, including the making donations, volunteering activities and engaging in environmentally friendly business activities. Kao Thailand has been focusing in particular on helping local communities to enjoy sanitary, hygienic living. In countries such as Thailand where infrastructure is still being improved, the enhancement of standards of hygiene is a very important issue, and toilets represent the basic foundation for good hygiene.

The Happy Toilet Project was launched in 2014, to provide funds for the building of new toilets and the renovation of dilapidated toilets, particularly in schools in rural villages. Kao Thailand has also implemented direct assistance for schools in need of support in the northern, northeastern and southern regions of Thailand. Direct support of this kind was provided to three schools in 2016, and has been provided to a cumulative total of five schools since the Happy Toilet Project was launched.

Enhancing public health through the creation of clean, safe toilets that everyone can use helps protect the health of the community as a whole.

Rather than just providing facilities, Kao Thailand is working

to spread awareness of the importance of keeping toilet facilities clean, encouraging local people to clean the toilets regularly so that people will continue to have clean toilets to use over the long term.

In the future, Kao Thailand will continue to make positive contributions helping people in local communities enjoy a hygienic, healthy living.



Happy Toilet (Thailand)

Putting the Kao Corporate Philosophy into practice

(56, DMA)

Kao's approach

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. 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.

Social issues and Kao's approach

Since its establishment, Kao has been aiming to enrich the lives of people around the world and contribute to society through our core value of *Yoki-Monozukuri*. We define *Yoki-Monozukuri* as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction, and include questions of whether high quality is being maintained; whether the value of products measures up to their price; and whether sufficient care is being paid to the

environment. At the same time, the meaning of *Yoki-Monozukuri* has evolved to include responding to the various social issues which arise alongside changes in the times.

As a company aiming to achieve both profitable growth and contribute to the sustainability of the world, we will continue to deliver new value by constantly examining and refining the meaning of *Yoki-Monozukuri* with not only the continuous growth of our business but also sustainability in mind.

Policies

To apply the Kao Way in practice, it is important to understand the connection between the abstract concepts of our corporate philosophy and our daily work. To help achieve this we emphasize the workshops implemented at the workplace level. By discussing the fulfillments and occasional frustrations we share with our coworkers, using the Kao Way as our shared foundation, we will deepen our understanding of our corporate philosophy and of our work, identifying potential points for improvement. These workshops also create an organizational culture of openness and mutual respect.

As opposed to being implemented in a rigid and uniform style across the entire Kao Group, workshops are coordinated independently and autonomously to align with the various business or organizational management issues relevant to each division and Group company, using as a base the programs provided by the Kao Way coordinating office at Kao's Head Office.

We also use the Kao Way as a common language to achieve smooth communication between the Head Office and subsidiaries and Group companies outside Japan.

Structures

The main owners of Kao Way activities are the management lines for each division and Group company. The Kao Way coordinating office maintains a network of Kao Way contact persons at each division and Group company who support these activities.

Education and promotion

We also conduct training seminars aimed at new employees to introduce the Kao Way. In 2016, we conducted such training for 100% of new employees or 1,943 persons for the Group as a whole.

Putting the Kao Corporate Philosophy into practice (56, DMA)

Mid- to long-term targets

We focus on the cultivation of leadership based on the Kao Way. Leadership based on the Kao Way specifically refers to the below behaviors:

- Taking the initiative to set a good example for others in the knowledge that you are responsible for putting the Kao Way into practice
- Being able to express the Kao Way in your own words based on your experiences

- Being able to explain the background, purpose and other aspects of your decision-making based on the Kao Way
- Habitually referring back to the Kao Way in your mind when confronted with major challenges

We are aiming to cultivate leaders capable of developing the talents of their teams and building a corporate culture bursting with energy to pass on to the next generation.



2016 results

- In Japan, we implement the Kao Way Dialogue program and corresponding programs aimed at leaders, introduced from 2014. The completion of a round of this is planned for the first half of 2017.
- Outside Japan, we implemented the same program in China and Taiwan.
- To honor teams and individuals which have put the Kao Way into practice in an exemplary fashion, we implement the Kao Way Recognition Program at respective workplaces. In 2016 this was implemented in two divisions in Japan and 14 companies outside Japan with the number of persons receiving commendations at 987.

Specific initiatives

Organizational invigoration through original and innovative workshops

Global

From the latter half of 2016 to the first half of 2017, we are implementing intensive workshops on the theme of strengthening and sharing an organization culture based on the Kao Way for members of our Consumer Products Business.

These were diverse programs rich in originality and ingenuity involving lectures on the Kao Way by business unit heads and senior colleagues, facilities tours of the Kao Museum, and the Workshops for Promoting Empathy with Elderly People.

In the Creative Division, where copywriters and designers work, 25 teams made posters and participated in a presentation session on the theme of “An Enriching (*Theme*) Lifestyle in 2030,” in which teams chose different lifestyle themes to explore.

Members of each team made their way to the actual sites of daily life and shared what they learned with each other, after which they speculated on how our lifestyles might change in the future. This became a unique opportunity for them to deepen their understanding of the true essence of their work.



Uniquely Kao-like (Kao Way) realizations from workshops

Bringing together individual smiles with “someone else” or “the future”

While doing what you like as much as you like is also fun, if it also leads to somebody saying “thanks,” your joy will multiply.

As a company, we aspire to becoming “connectors” who create that moment of joy.

Create a poster depicting “An Enriching Lifestyle in 2030”

Sharing the Kao Way as part of the post-acquisition integration process

Global

We implemented a Kao Way sharing program in September as part of the integration process for Kao Collins Inc., which Kao acquired in July 2016. Kao Collins Inc. is an inkjet ink development, manufacturing and retail company based in Cincinnati, Ohio, in the U.S. which will play a key role in the future of Kao’s inkjet business.

Through the Kao Way sharing program, we furthered understanding of the Kao Group’s organizational culture and conducted group discussions on its practical implementation by affirming the content of the Kao Way, and introducing case studies and quotes from previous members of Kao’s senior management. All executives and employees of Kao Collins Inc. participated in sessions held over three days. We received feedback such as “I now have a greater understanding of Kao” and “I have been able to confirm for myself the common points in the organizational culture of Kao and Kao Collins.” We were again reminded of the importance of the early transmission and shared understanding of our corporate philosophy during the integration process accompanying the acquisition.



Talk on the Kao Way at Kao Collins Inc.

Development of a new program to consider future practice of the Kao Way

Global

As we enter 2017 and beyond, we are proceeding with development of a program called “The Kao Way Future Session,” intended to consider future perspectives. In November 2016 we implemented a pilot program at the Head Office, with 10 people participating.

What will our forthcoming realities consist of, and how is society changing? How is the Kao Group and the work of its employees changing? And how does each and every employee live as an individual? While re-examining our current work from these various future perspectives, we will discuss the ideal ways in which the Kao Way should be put into practice to accompany these changes.

We anticipate that such processes will feed into the creation of innovation, and that new perspectives and conceptions with regards to business activities will be born.

Going forward we plan to implement this program bringing together cross-divisional members without regard to their job content or age.



The Kao Way Future Session

Integrity (41, 56, 57, 58, DMA, HR12, SO4, SO6, SO8)

Kao's approach

Kao, in aiming for continuous growth and to becoming “a company with a global presence,” operates lawfully and ethically, conducting its business activities in good faith and integrity while responding to changes in society. Kao will strive to foster a compliance mind-set in all Group employees, and the further improvement of a corporate culture through such activities as continuous education and training on the Kao Business Conduct Guidelines (BCG), and appropriate responses to the compliance hotlines.

Social issues and Kao's approach

To reduce the potential of operational risks and ensure fair-minded dealings, we are endeavoring to enliven the organizational culture which forms the basis of our business activities, while furthering initiatives regarding priority issues such as anti-bribery, the protection of human rights and avoiding conflicts of interest.

Policies

Kao upholds the principle of Integrity, passed down from its founder, as one of the core values of its corporate philosophy, the Kao Way. Integrity means to behave lawfully and ethically and conduct fair and honest business activities. Kao regards Integrity as the starting point of compliance and promotes it as a foundation for earning the respect and trust of all stakeholders.

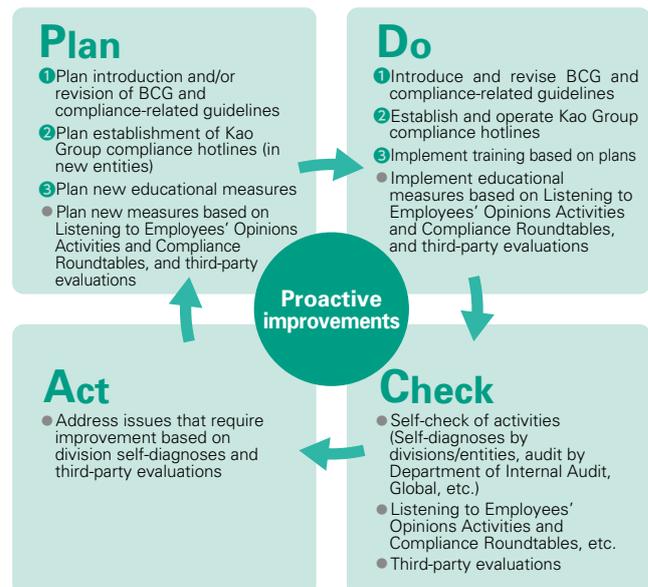
Identifying mid- to long-term issues and exploring corresponding initiatives

Kao conducts compliance promotion activities based on mid- to long-term and annual activity plans, including:

- (1) regular revision of the BCG;
- (2) improvement and operation of compliance hotlines; and
- (3) implementation of compliance education and training.

Kao verifies the validity and appropriateness of current activities when formulating the activity plans for the following year. To facilitate promotion of effective compliance activities, this verification process each year includes collecting the opinions of staff involved in compliance in company divisions as well as other employees (Listening to Employees' Opinions Activities and Compliance Roundtables). Kao also regularly has an external consulting firm evaluate its compliance structure and receives advice from this firm.

PDCA Cycle for Compliance Activities



Structures

Compliance promotion structure

Kao has established the Compliance Committee, chaired by the Representative Director and Senior Managing Executive Officer, and comprised of representatives of relevant divisions and affiliates.

The Compliance Committee:

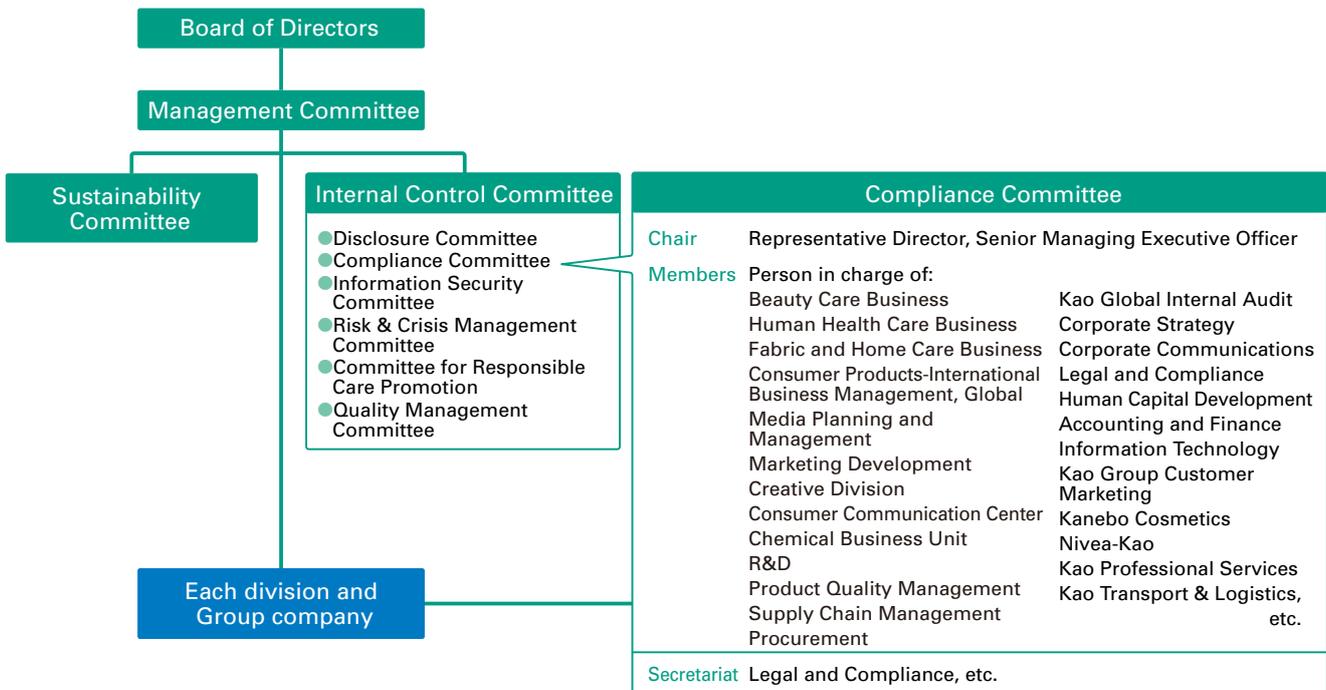
- 1) discusses the establishment and revision of the BCG and other internal compliance-related guidelines;
- 2) implements educational activities to promote the spread and establishment of corporate ethics both inside and outside Japan; and
- 3) monitors responses to the compliance hotlines once every six months, reports on other important matters such as

revisions of rules and regulations, etc. provides an overview of activities and makes proposals to the Board of Directors as appropriate in the form of an annual report.

The Compliance Committee has also installed a secretariat. At the secretariat meeting held each month, members of the secretariat review and discuss the status of responses to inquiries made to hotlines both inside and outside Japan. They also consider new approaches to promote compliance and draft plans to provide compliance education promotion activities.

In addition, Kao monitors and evaluates these activities and continues to improve them using the PDCA (Plan-Do-Check-Act) cycle.

Compliance promotion structure



Auditing and monitoring structure

Kao conducts audits for compliance through the internal audit and monitoring of activities in a variety of formats.

Internal audit

A regular internal audit is conducted for all companies and divisions of the Kao Group, which includes verifying conduct on compliance-related issues based on guidelines related to entertaining and gift-giving.

Self-checks of individual divisions

Once a year, self-checks, including those by the Compliance Committee members of individual divisions and compliance supervisors in Group companies inside and outside Japan are conducted concerning whether there were violations of the BCG and the status of compliance activities in their own divisions and companies.

Employee perception survey

The Kao Group monitors the status of compliance awareness among employees through the company-wide opinion survey *Find* conducted every other year. A survey was also conducted for the first time in 2016 on specific behaviors, awareness and level of permeation regarding compliance activities.

Self-check exercises at seminars

Compliance seminar for mid-career employee participants (around 170 persons in 2016) completed self-check exercises on their compliance awareness.

→p. 130 Culture > Sustainable and responsible procurement > Conducting the supplier satisfaction survey

Mid- to long-term targets

1. Continuous enhancement of enlightenment activities for the BCG
2. Appropriate operation of the compliance hotlines
3. Identify issues and explore and implement improvement measures based on societal and internal expectations and other activities for monitoring and measuring effectiveness

2017 targets

1. Revise the Kao Business Conduct Guideline Casebook
2. Continuity of compliance education and training
3. Continuation of follow-up on employee perceptions survey: Analysis of results and identification of issues from the Japan 2016 survey and implementation of employee perceptions surveys outside Japan
4. Implement self-check of individual divisions

2016 results

1. Continuous enhancement of enlightenment activities for the BCG

Deployment of the BCG based on societal expectations

In 2016, the BCG was revised for the first time in three years to respond to societal expectations and to incorporate new internal policies, internal rules and other factors.

→For details, refer to “Specific initiatives: Deployment of the BCG revision and other compliance-related rules”

BCG employee permeation strategies

(1) Educational activities for employees

To deepen employee understanding of the BCG and other compliance-related rules and regulations, Kao holds classroom-based training for new employees, newly appointed managers, managers working in Japan, and Group company employees outside Japan. In addition, an annual BCG refresher test is held to check knowledge of BCG content.

For 2016, specific targets were set for the following three items; the results achieved are outlined below:

- BCG refresher test:
 - A target of 95.0% was stipulated with an outcome of 97.5% (36,440/37,386 person target) achieved.
- Compliance training for Kao executives working in Japan:
 - From 2015, an aggregate target of 100.0% was stipulated with an outcome of 100% (1,420/1,420 person target) achieved.
- Integrity Workshops held overseas:
 - From 2008, an aggregate target of 85.0% was stipulated with an outcome of 93.8% (10,318/11,000 person target) achieved. Deployment chiefly proceeded at Kanebo subsidiaries in Europe and in Asia.

(2) Compliance Awareness Month

Expansion of the scope of Compliance Awareness Month to Group companies outside Japan

→For details, refer to “Specific initiatives: Implementation of Compliance Awareness Month”

2. Appropriate operation of the compliance hotlines

→For details, refer to “Specific initiatives: Establishment and operation of compliance hotlines”

3. Identify issues and explore and implement improvement measures for activities based on societal and internal expectations and other activities for monitoring and measuring effectiveness

Self-checks of individual divisions

Self-checks of individual divisions were also conducted at divisions and subsidiaries without designated compliance personnel including those in Group companies and regions outside Japan.

Employee perception survey

A survey on specific behaviors and awareness of compliance (six questions) was conducted for the first time for employees of Group companies in Japan. As a result of the survey, Kao was able to confirm the status of helpcard and BCG booklet retention by employees of various functions and employees perception regarding case of consultation through the compliance hotline and within their own organizations, and implement remediation measures. Kao will gauge again employee perception upon revision of the BCG.

Listening to Employees’ Opinions Activities

Opportunities for direct dialogue with employees from 16 departments and organizational units including Group companies inside and outside Japan was arranged, and we used this to collect information from employee opinions with regard to existing initiatives, requests for new initiatives, and other issues.

Compliance promotion activities based on third-party evaluations

Kao reexamined its mid- to long-term activity plans for permeation of compliance awareness in order to improve an external evaluation of its compliance program from the previous year. Company challenges were affirmed and these were reflected in yearly activity plans for 2017, following completion of questionnaires from third-party evaluation bodies including RobecoSAM, a survey and analysis company for the Dow Jones Sustainability Indices (DJSI) in which Kao participates annually, as well as the Ethisphere Institute.

Collaboration with stakeholders

- The Executive Officer for the Legal and Compliance Division was commissioned by Chuo University and the Ministry of Education, Culture, Sports, Science and Technology to participate in the symposium “Compliance to improve corporate value: Kao’s challenges,” in January 2016. An opinion exchange with other companies and Chuo University was also conducted at the panel discussion.
 - Kao participated in the panel discussion to introduce compliance promotion initiatives in companies doing business in Japan (including foreign-owned enterprises) at the Tokyo Forum hosted by the Ethisphere Institute, a U.S. corporate ethics think tank, in November 2016.
- p. 123 Culture > Sustainable and responsible procurement

Specific initiatives

Implementation of Compliance Awareness Month

Global

While compliance is each employee's responsibility, after receiving many requests from employees to make compliance activities more relevant to them personally, Kao designated October as Compliance Awareness Month starting in 2015. Within Japan, this was originally timed to coincide with the Nippon Keidanren's Corporate Ethics Promotion Month. Kao is seeking to use this activity to spread compliance awareness more widely within the Kao Group. In 2016, deployment of this activity was also widened to encompass companies outside Japan.

During Compliance Awareness Month, a message from the Compliance Committee chairman is disseminated via the Kao company intranet and posters and compliance messages are also sent from the Executive Officers to individual divisions. In addition, self-checks of individual divisions for respective organizational units are conducted, case studies are disseminated, and refresher tests are administered to check knowledge of the BCG.

Comments included: "Having posters displayed in the words of locals from diverse places of business enhanced the sense of us all belonging to the same Kao Group" and "While it is

something of which we should be constantly aware, I like to have the chance to reflect on compliance once a year, and hope that this will be continued."



Compliance Awareness Month poster is designed and displayed in 19 languages

Deployment of the BCG revision and other compliance-related rules

Global

The BCG, which serves as Kao's corporate code of conduct, has been adopted by all Kao Group companies throughout the world.

In addition, the Kao Business Conduct Guidelines Casebook, which covers possible scenarios relating to the BCG in Q&A format, has been compiled in Japanese-language, English-language and 17 other language versions.

Reflecting the approach embodied by the BCG, Kao prohibits the giving and receiving of bribes regardless of the identity of the other party and bans facilitation payments in the Kao Anti-Bribery Guidelines, and prohibits the making of political donations in its Donation Guidelines, with confirmation that political donations were not made in 2016. Moreover, specifics regarding the approval procedures for giving and receiving of entertainment and gifts and notification procedures relating to the invitation of government officials as mentioned in the Kao Anti-bribery Guidelines have been drawn up and adopted for each region and company including Kao Group companies outside Japan.

Besides the measures noted above, Kao has also proceeded with the adoption at Kao Group companies both inside and outside Japan of the Kao Guidelines for Avoiding Conflicts of Interest which requires approval or notification corresponding to specific situations in which there is a risk of a conflict of interest through competition, transactions, loans, personal investments etc. with the Kao Group.

The following measures were also implemented in 2016:

1. Revision of the BCG for the first time in three years (April 2016).
The main content of the revisions was: (1) Clarification of the scope of application, indication of relationship with the Kao Way (the Kao Group Corporate philosophy) and promotion of the use of the compliance hotlines; (2) Clarification of the Kao Group procurement policy by including references in the BCG; and (3) Specification regarding respect of each person's human rights with reference to the Kao Human Rights Policy. This was compiled in Japanese-language, English-language and 17 other language versions.
In addition, briefing sessions on the content of these revisions for executives and employees was conducted in Japan, reaching 92.7% of those targeted (completed 24,487/26,414 target).
2. Kao Guidelines for Avoiding Conflicts of Interest were revised to add clauses concerning related party transactions, specifically transactions between relations of executives and Kao Group companies. Continued support was provided to companies that have not yet adopted the revised guidelines.
3. An Anti-bribery Checklist for distributor selection was drawn up and put into practice to be used when engaging a distributor and when renewing a contract with a distributor in accordance with the due diligence procedure of business partners described in the Kao Anti-bribery Guidelines.

Establishment and operation of compliance hotlines

Global

Kao Group operational policy

In accordance with the needs of each country and region, Kao Group companies have established and operate both internal and external compliance hotlines or only external hotlines.

In operating the hotlines, after properly confirming the caller's needs, companies take steps to respect the individual's privacy, strive to the maximum extent possible to ensure that callers suffer no disadvantage as a result of their good-faith consultation, and receive the caller's consent when a third party needs to be involved. Anonymous inquiries are accepted, but callers are encouraged to use their real names due to the limited nature of investigations based on anonymous reports.

In 2016, there were 253 calls to the hotlines of the Kao Group including companies outside Japan, none of which were of a nature serious enough that they impacted business continuity. About 80% of the calls were of a minor nature such as opinions on products and TV commercials, falling outside of the primary scope of the compliance hotline, which were ultimately resolved or closed through responses from the secretariat or in face-to-face consultations. The remaining 20% were resolved by measures such as warnings to the relevant persons from examinations of the matters in face-to-face consultations. Of these, there were a few cases which resulted in disciplinary action.

Further breakdown of the reports reveals that items related to harassment, including sexual harassment, abuse of authority and bullying, were at 34%; and those falling outside the scope of compliance issues, including those related to miscommunication at workplaces, working conditions and employment, were at 35%. Together, these two categories comprised nearly 70% of calls. There was no particular correlation observed between the types of reports and the department, business function or location.

Kao Group in Japan

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

Kao Group outside Japan

All Kao Group companies outside Japan have established and operate external compliance hotlines operated by an outside service provider, and the majority have also established internal compliance hotlines in which the company's HR manager or other representative handles inquiries.

The Integrity Lines, which are external compliance hotlines, have been successively set up at Group companies in countries outside of Japan and are available in the caller's own language 24 hours a day, 365 days a year.

In 2016, a new hotline was set up for a chemical company in the United States which joined the Kao Group.



Poster for the Integrity Lines in the U.S.

Response to compliance violations and serious violations in 2016

Global

Kao upholds a principle of disclosing serious violations of laws and regulations in the Kao Group's business operations.*

* However, in cases where there are legal or contractual confidentiality obligations, the risk of affecting public interest, the need to take privacy into consideration or other similar limiting factors, the violation may not be made public.

There were no serious compliance violations relating to the Kao Group's operations in 2016. However, while there were a total of 23 cases globally which resulted in persons leaving

their positions (including resignation under instruction), all cases were on individual employee levels and none was serious enough to cause any major harm to the company's reputation. These included cases involving fraudulent behavior such as theft and embezzlement, sexual harassment, serious traffic violations, and other offenses. Internal educational activities and intranet announcements were conducted to prevent the recurrence of such situations.

Measures ensuring full compliance in daily work

Japan

Kao assigns employees trained as “laws and regulations experts” to monitor trends in enforcement and amendments to laws and regulations related to its business, and to communicate information and educate as needed through

various means such as in-house workshops.

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

Laws and regulations revised in 2016 for which laws and regulations experts conducted relevant activities

- Fire Service Law
 - Labor Standards Act
 - Consumer Contracts Law
- etc.

Number of laws for which laws and regulations experts have been appointed and the number of internal regulations registered as of the end of December 2016

Number of laws for which laws and regulations experts have been appointed*: 337 laws in total from 82 laws and regulations experts

Number of internal regulations registered: 636

* Appointment of laws and regulations experts
The managing division independently appoints laws and regulations experts for specified laws and regulations.

Eleven consecutive years on the World's Most Ethical Companies list

Global

In March 2017, Kao was named to the list of the World's Most Ethical Companies 2017 by the U.S. think tank Ethisphere Institute. Kao has been on this list for 11 straight years, since the award's inception in 2007. Kao is the only Japanese company, and the only manufacturer of fast-moving consumer goods as well as chemicals, to be honored in all 11 years.

Selection of companies is based on the evaluation of five factors: (1) Ethics and Compliance Program; (2) Reputation, Leadership and Innovation; (3) Corporate Citizenship and Responsibility; (4) Governance; and (5) Culture of Ethics.

This recognition reflects the fact that the spirit of Integrity as passed down by Kao's founder continues to be implemented by all Kao Group members through practice of the Kao Way and the BCG.



Awards ceremony

Human rights initiatives (15, DMA, HR2, HR9, HR11)

Kao's approach

We have formulated the Kao Human Rights Policy, which is based on the United Nations (UN) Guiding Principles on Business and Human Rights, and we are implementing measures aimed at fostering respect for human rights in every aspect of our *Yoki-Monozukuri* processes.

Social issues and Kao's approach

As the globalization of corporate activities advances and the supply chain expands, human rights risks are increasing.

In March 2015, the Modern Slavery Act 2015*, which seeks to prevent forced labor and other modern forms of labor that are equivalent to slavery, as well as to prevent trafficking of human beings, was enacted in the U.K. It came into effect in October 2015. The passing of this new law, and similar measures elsewhere, reflects the growing attention that the international community as a whole is paying to business enterprises' respect for human rights.

In collaboration with a diverse range of stakeholders, we promote the achievement of the Kao Way mission, which is

"to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world." In this collaboration, we firmly believe that fulfilling our responsibility to respect the human rights of various stakeholders in line with international standards is the foundation of our business activities.

* Modern Slavery Act 2015

The Act requires for-profit groups and companies conducting business activities in the United Kingdom whose annual sales exceed a certain scale to produce and release annual statements about measures enacted to ensure that slave labor and human trafficking offenses have not been committed.

Policies

The Kao Human Rights Policy that we formulated and announced in 2015 stipulates that we respect international norms relating to human rights, such as the International Bill of Human Rights, and that we will conduct human rights due diligence and implement human rights education for employees, working diligently to fulfill our responsibilities in regard to respecting human rights in every aspect of our operations.

The Kao Business Conduct Guidelines (BCG), which regulate business conduct to ensure the realization of the Kao Way, clearly stipulate respect for human rights and the prohibition of child labor, human trafficking and all other forms of forced labor. Regarding respect for human rights in the supply chain, our Policies for Procurement stipulate the need for purchasing operations to give due consideration to human rights, and to contribute to the fulfillment of our corporate social responsibility. In addition, the Kao Guidelines for Supplier's Assessment include suppliers' fulfillment of their

corporate social responsibility as an assessment item, and notes that suppliers are required to take measures to prevent forced labor, child labor and other illegal labor practices.

In 2005, we declared our support for the UN Global Compact, which defines 10 principles in the four areas of human rights, labor standards, the environment and anticorruption.

→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_00.html

→Policies for Procurement

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

→Kao Guidelines for Supplier's Assessment

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

Structures

Reflecting the multi-faceted nature of human rights issues, we implement human rights-related measures by having the Human Capital Development Division, the Sustainability Department, the Compliance Promotion Office, the Procurement Division and other divisions play a central role, liaising with relevant departments and with Group companies, and submitting progress reports to the Sustainability Committee.

The Sustainability Department functions as the secretariat

for matters relating to human rights due diligence within the Kao Group, implementing relevant measures in collaboration with the Human Capital Development Division and the Compliance Promotion Office.

With regard to human rights-related measures targeting the supply chain, the Procurement Division (which is our point of contact for communication with suppliers) plays the central role here, encouraging suppliers to take appropriate steps.

Education and promotion

We hold workshops throughout the world to deepen the understanding of the Kao Business Conduct Guidelines (BCG)—which sets out our approach to ensuring respect for human rights—among employees in all Kao Group companies. We also implement classroom-based training for newly recruited employees and for newly appointed managers, as well as an annual refresher test that all employees are required to take.

In Japan, each December is designated as Human Rights Awareness Month, and awareness-raising activities are implemented using newsletters, posters, etc. In addition, our internal Guidelines for Preventing Sexual Harassment are posted on the company intranet, and a system has been put in place for the establishment of internal and external harassment

consultation hotlines for use by Kao employees.

Other human rights educational activities

Educational activities targeting Procurement Division employees have been held in regard to the UK's new Modern Slavery Act 2015.

→p.113 Culture > Integrity

→p.123 Culture > Sustainable and responsible procurement

→p.135 Culture > Promoting diversity & inclusion

Mid- to long-term targets

We are using human rights due diligence and awareness-raising activities to strengthen stakeholders' understanding of human rights issues. We will continue to identify, prevent and mitigate human rights-related risk in our business activities.

2016 results

1. Implementation of human rights due diligence both at Kao and in the supply chain

Efforts in the Kao Group

- A survey of Kao Group companies was conducted using the Human Rights Checklist (the response rate for target companies: 100%).
- A survey of Kao Group production sites (36 plants in total) was conducted using the Sedex* Self-assessment Questionnaire (the response rate for target production sites: 100%).

Efforts in the supply chain

- We have been holding explanatory meetings for suppliers inside Japan regarding Sedex. These meetings explain our human rights-related measures, the Sedex framework, and the significance of Sedex registration. Suppliers are encouraged to register with Sedex.
Number of Japan-based suppliers that attended explanatory meetings about Sedex in 2016: 476

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

→p.113 Culture > Integrity

→p.123 Culture > Sustainable and responsible procurement

2. Revision of the Kao BCG

The Kao BCG now clearly stipulate that Kao employees are required to comply with the Kao Human Rights Policy, and that they should do their utmost to fulfill their responsibility to respect human rights. Presentations outlining the revisions have been held in all Kao divisions and Group companies in Japan.

3. Human rights awareness-raising activities

Holding of training sessions to help Kao employees develop a better understanding of LGBT issues

In Japan, we have held two lectures on LGBT issues at which external experts were invited to speak, and have continued to incorporate explanation of LGBT issues into management training activities. We have also begun implementing LGBT-related training for beauty advisors and beauty counselors, who are into direct contact with customers on a regular basis.

Awareness-raising activities during Human Rights Awareness Month

In December 2016, posters and the distribution of newsletters were used for awareness-raising purposes. The newsletters covered various human rights-related themes, as well as providing details of Kao's consultation hotlines.

Specific initiatives

Process of human rights due diligence

Global

We are making the following efforts to investigate and identify human rights risks involving the Kao Group.

1. Efforts in the Kao Group

In 2016, we performed a risk assessment targeting all Kao business locations throughout the world. For production facilities, we made use of Sedex, a platform for sharing information on the ethical practices of global companies, with 36 Kao production sites asked to complete the Sedex Self-assessment Questionnaire. The completion and return rate was 100%. For other Kao Group companies (besides the production sites), a Human Rights Checklist was compiled. A total of 53 Kao Group companies completed and returned this checklist, which again represented a 100% completion and return rate.

Evaluation was then performed based on the combined results obtained from the Sedex Self-assessment Questionnaire and Human Rights Checklists. While this evaluation did find some issues where improvements were needed, no human rights risks were identified. To ensure that Kao employees are able to report and consult on compliance-related issues when necessary, a reporting and consultation hotline has been established in each Kao Group company.

→p.113 Culture > Integrity

→p.183 Responsible Care Activities

2. Efforts in the supply chain

We make use of a variety of opportunities and methods to communicate with suppliers, endeavoring to ensure that suppliers understand our policies and ethical standards.

In 2012, new clauses relating to concern for the environment and for human rights were added to the master agreements that we sign with suppliers. In principle, this new master agreement is used when signing contracts with new suppliers or renewing existing contracts.

Since 2008, suppliers have been required to perform self-assessment of their conformity with the Kao Guidelines for Supplier's Assessment, which we then monitor. In the case of suppliers who fail to meet the criteria of the Kao Guidelines for Supplier's Assessment, our personnel visit the supplier so that the supplier can share information about the problems, and so that we can collaborate on achieving improvements. Since we became a member of the Sedex organization in 2014, we have held explanatory meetings about Sedex for suppliers; a cumulative total of 476 Japan-based suppliers have attended these meetings. We have also written to suppliers encouraging them to submit responses to Sedex surveys.

→p.123 Culture > Sustainable and responsible procurement

Sustainable and responsible procurement

(15, 27, DMA, LA15, HR11, SO10, EN33)

Kao's approach

Kao conducts fair and impartial procurement activities based on legal and ethical principles. While aiming to contribute to the realization of a society with sustainable development, we fulfill our corporate responsibilities with consideration for resource protection, environmental conservation, safety and human rights.

Social issues and Kao's approach

We pursue sustainable and responsible procurement activities to fulfill our corporate social responsibility while maintaining standards of fairness, compliance and ethics, and social responsibility conforming to our Policies for Procurement.

In procurement transactions, we provide opportunities for fair competition based on practical standards, comply with laws and uphold ethical standards in all countries in which we do business.

Aiming to contribute to realizing a society with sustainable

development, we are fulfilling our corporate social responsibility with extensive environmental considerations including resource conservation, global warming prevention and biodiversity preservation as well as social considerations including safety, sanitation, labor conditions and human rights.

→For details, refer to Policies for Procurement

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

Policies

Kao has formulated Guidelines for Supplier's Assessment and Guidelines for Sustainable Procurement of Raw Materials to facilitate the practical implementation of procurement activities in accordance with our Policies for Procurement.

We conduct procurement activities based on our Guidelines for Supplier's Assessment, which position suppliers as an essential partner in *Yoki-Monozukuri*. In our procurement activities, we give priority to those suppliers that place importance on social responsibilities, including compliance with laws, regulations and social norms, protection of human rights, assurance of health and safety and fair trade, and to those suppliers that collaborate fully on environmental issues such as the environmental management system that we consider to be important. We also give priority to procurement of raw materials and packaging that give due consideration to environmental concerns.

Our standard contract with suppliers clarifies provisions concerning the aforementioned issues including the environment, human rights and labor.

We are also pursuing sustainable procurement based on

the Guidelines for Sustainable Procurement of Raw Materials, which takes into account environmental problems including global warming and the loss of biodiversity as well as resource constraints, human rights and other pertinent issues.

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

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

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

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

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

Structures

The Procurement Division formulates strategy to conduct sustainable and responsible procurement. It has set up the Sustainability Group in the Planning Division and the Sustainable and Responsible Procurement Panel.

Under this strategy, the Raw Materials Division and the Packaging Materials Division conduct procurement following

the Guidelines for Sustainable Procurement of Raw Materials. Meanwhile, the Indirect Materials & Services Division conducts green purchasing of office and other supplies, and the Machinery & Equipment Division is introducing environmentally friendly equipment and fixtures.

Sustainable and responsible procurement (15, 27, DMA, LA15, HR11, SO10, EN33)

Education and promotion

Employee training and education: Japan

We have educated our new Procurement Division employees in our basic approach to procurement, which includes fairness and equity, adherence to laws and ethics, and social responsibilities. Through such training, we strive to encourage our employees to understand global social issues such as human rights and labor, which are fundamental to ISO 26000 and the United Nations Global Compact (UNGC) principles.

In 2016, nine employees newly assigned to the Procurement Division received education in our basic approach to procurement.

Promoting certification testing

With the aim of educating all Procurement Division employees in the relationship between business operations, society and the environment, and encouraging them to modify their behavior accordingly, starting from 2012 Procurement Division employees have been encouraged to take the Certification Test for Environmental Specialists (Eco Test^{*1}).

From 2015, we have encouraged Procurement Division

employees to take the Examination of Compliance Proficiency for Practical Business (ECPBP)^{*2}. In 2016, the certification rate for the Procurement Division reached 59% in total.

Awareness-raising for human rights issues: Japan

To deepen their awareness of human rights issues at Kao, Procurement Division employees have received education about the U.K. Modern Slavery Act 2015.

*1 Eco Test

The Certification Test for Environmental Specialists (Eco Test) promotes an environmentally and economically sustainable society. The Eco Test has been administered by the Tokyo Chamber of Commerce and Industry since 2006.

*2 ECPBP[®]

The Examination of Compliance Proficiency for Practical Business (ECPBP)[®] aims to cultivate compliance skills that embody an awareness of the social expectations that underpin compliance-related laws and regulations, and a systematic understanding of the laws and regulations that are particularly important for business enterprises. The ECPBP was launched in 2005 by Japan's Certify Competence Examination Committee.

Mid- to long-term targets

1. Promoting the sustainable procurement of raw materials

Procurement of certified raw materials

With the aim of zero deforestation, we are promoting the switch to procuring palm oil, paper and pulp from sustainable sources by 2020.

With regard to procurement of palm oil and palm kernel oil, besides joining the RSPO^{*1} and promoting the obtainment of SCCS^{*2} certification and the procurement of certified sustainable palm oil, we are also taking measures to ensure traceability (back to the source) of all palm oil and palm kernel oil that the company purchases by 2020. As of the end of 2015, we had completed traceability confirmation of respective mills. However, as there are still some cases of derivative products purchased from external suppliers where the mill that produced the original raw material cannot be confirmed. We will continue to undertake further confirmation work and will also purchase RSPO-certified materials as a supplementary measure.

Regarding procurement of paper and pulp, we are aiming to ensure that, by 2020, all paper, pulp and packaging materials used in Kao products, and all paper used in Kao offices, are either recycled paper or paper from a sustainable source. In particular, in the case of pulp, by 2020 we aim to purchase only pulp that has traceability back to the area where the timber was logged.

Sustainable sourcing of natural plant resources

As the scarcity of natural plant resources and the problems relating to resource capture have become clear, we are promoting natural plant resource procurement that reflects ABS^{*3} concerns. We are also continuing with initiatives to diversify sourcing routes and to convert from natural plants to artificially cultivated materials, giving due consideration to the natural environment in the producing areas.

2. Human rights initiatives

We established the Kao Human Rights Policy in 2015 to address various risks associated with human rights problems. In addition to our own activities, we also request that the activities of our suppliers respect human rights based on the Guidelines for Supplier's Assessment as part of our policy of human rights due diligence.

To conduct this risk assessment, in 2014 we joined Sedex, a platform for sharing information on ethical practices by global companies. In 2017, we plan to conduct a supplier risk assessment using Sedex.

By 2020, we aim to have 70% (Japan: purchase value basis) of our suppliers join Sedex.

3. Green procurement

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

We are also pursuing the introduction of environmentally friendly equipment and fixtures such as LED lighting.

*1 RSPO (Roundtable on Sustainable Palm Oil)

A roundtable group to promote the production and use of sustainable palm oil
<http://www.rspo.org/>

*2 SCCS (Supply Chain Certification System)

A supply chain system created for the purpose of producing, selling and delivering products to customers using sustainable palm oil harvested at plantations certified by the RSPO that clear rigorous standards for biodiversity preservation

*3 ABS (Access and Benefit Sharing)

ABS is one of the goals of the Convention on Biological Diversity (CBD). It relates to the fair and equitable sharing of the benefits derived from the exploration, development and use of genetic resources in relation to the issue of the capture of the bio-resources (genetic resources) of producer nations (which are generally developing nations) by advanced nations and multinational corporations.

Sustainable and responsible procurement (15, 27, DMA, LA15, HR11, SO10, EN33)

2016 results

1. Promoting the sustainable procurement of raw materials

Procurement of certified raw materials

- Palm oil and palm kernel oil procurement
➔For details, refer to “Specific initiatives: Initiatives toward sustainable procurement of all palm oil and palm kernel oil”
- Paper and pulp procurement
➔For details, refer to “Specific initiatives: Initiatives toward sustainable procurement of paper and pulp”

Sustainable sourcing of natural plant resources

Glycyrrhizinate derivatives used in cosmetics and quasi-drugs are produced from glycyrrhiza (licorice root), a leguminous plant. In the past we have used glycyrrhizinate

derivatives produced from wild glycyrrhiza. In 2016, we began using glycyrrhizinate derivatives produced from cultivated glycyrrhiza from specified plantations to achieve biodiversity preservation and sustainable use.

2. Human rights initiatives

- ➔For details, refer to “Specific initiatives: Partnering with our suppliers/Sedex (Human rights initiatives)”

3. Green procurement

Our percentage of procurement conforming to the Green Procurement Standards was 78% in 2016.

Collaboration with stakeholders

Sustainable procurement

We are promoting sustainable procurement in two ways: the purchasing of palm oil and paper and pulp products certified as sustainably procured, and confirming traceability.

We have begun procurement of certified palm oil and certified paper by requesting that our suppliers in Japan obtain certifications.

To confirm traceability, we are conducting verifications and risk assessments by third-party organizations of information about the raw materials supply chain.

Partnering with our suppliers

We are strengthening coordination with our suppliers through various initiatives including Sedex, vendor summits, quality improvement meetings, CSR self-assessment monitoring, and the CDP Supply Chain Program as we develop our global procurement activities.

- ➔For details, refer to “Specific initiatives: Partnering with our suppliers”

Specific initiatives

Initiatives toward sustainable procurement of all palm oil and palm kernel oil

Global

We have formulated and implement the Guidelines for Sustainable Procurement of Raw Materials in palm oil and palm kernel oil procurement. We are also an RSPO member and are working to create a traceable supply chain for palm oil.

Sustainable Palm Oil Procurement Guidelines

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

Goal 1:

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

Results:

By 2015, we confirmed the traceability of palm kernel oil back to the crushing mill based on supplier information. In 2016, we verified supplier information using third-party organizations and confirmed the traceability of palm kernel oil back to the palm oil mills that supply palm kernels.

Goal 2:

By 2020, adequately confirm zero deforestation at the source through cooperation with plantations, suppliers (mills, refineries) and third-party organizations. In addition, we will not take part in procurement activities using high conservation value (HCV) forests, high carbon stock (HCS) forests or peatlands.

Results:

From 2016, we have conducted risk assessments by third-party organizations for some mills whose traceability has been confirmed and identified as mills that require monitoring. We will conduct site reviews of these mills going forward.

Goal 3:

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

Results:

We are working to identify palm oil mills that supply palm kernels by the end of 2018. To ensure traceability to the source for small plantations, in 2016, we investigated some projects to strengthen our engagement with small plantations with the cooperation of third-party organizations.

Goal 4:

By 2020, work to obtain RSPO SCCS certification of Kao Group manufacturing sites and offices in order to build a traceable supply chain for the Kao Group.

Results:

We obtained RSPO SCCS certification for 24 sites globally as of the end of 2016.

Kao Group certified palm oil purchases

(Thousand tons)



* Total of palm oil, palm kernel oil and their derivatives for consumer products.

Response to suspension of RSPO certification for the IOI Group

In March 2016, RSPO certification for the palm oil supplier IOI was suspended. Based on the principles of conduct in the Guidelines for Sustainable Procurement of Raw Materials, we have verified the situation with IOI and requested resolution of the problems. We also suspended purchases of certified raw materials from IOI. We will not purchase from IOI until the rectification plan approved by the RSPO has been objectively verified by a third party and improvements have been confirmed.

*1 Book and Claim system

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

*2 Mass Balance system

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

Initiatives toward sustainable procurement of paper and pulp

Global

We are pursuing procurement of sustainable paper and pulp raw materials based on our Guidelines for Sustainable Procurement of Raw Materials.

We have committed to including considerations for biodiversity preservation and to zero deforestation in paper and pulp procurement.

Sustainable Paper and Pulp Procurement Guidelines

Goal:

We purchase only recycled paper and paper produced with considerations for sustainability for the paper and pulp used in Kao Group products, packaging materials and office paper by 2020. When using pulp other than waste pulp (virgin pulp), by 2020 we will purchase only pulp that is traceable to the source, and confirm zero deforestation at producers of wood materials through cooperation with suppliers and third-party organizations.

Results:

Combined with purchases of certified products, 99% of our paper and pulp purchases were traceable as of the end of 2016.

In March 2016, we began introducing FSC-certified corrugated cardboard, a first in Japan. In 2016, we achieved our initial annual goal of switching to FSC-certified corrugated cardboard for 50% of our corrugated cardboard use globally.

Sustainable and responsible procurement (15, 27, DMA, LA15, HR11, SO10, EN33)

Partnering with our suppliers

Global

Sedex (Human rights initiatives)

We joined Sedex, a platform for sharing information on the ethical practices of global companies, in 2014 to identify areas of potential risk in human rights due diligence and to develop globally standardized methods of supplier monitoring. As of the end of 2016, 445 suppliers globally have joined Sedex. In Japan, we held informational sessions for our Japanese suppliers in 2016, where we described Kao's initiatives on human rights issues and the Sedex system as well as requested that suppliers join Sedex and set up data access rights. A total of 476 companies attended the informational sessions, and as of the end of 2016, 149 companies have joined Sedex, which account for 34% of the purchased value of our products.

This is serving to improve our supplier risk assessments conducted by procurement staff in addition to the results of CSR self-assessment monitoring currently conducted globally.

Status of the Guidelines for Supplier's Assessment

We have established the Guidelines for Supplier's Assessment, which define initiatives in such areas as the environment, safety, conformance with laws and social norms, and human rights and labor problems. We are monitoring self-assessments of the status of adherence to the Guidelines.

We visit suppliers who do not meet the standards, share with them the issues that need addressing, and conduct improvement measures.

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

	Suppliers to Kao Corporation	Suppliers to the Asian Kao Group
2012	860 (99%)	610 (97%)
2013	883 (99%)	726 (98%)
2014	906 (99%)	823 (98%)
2015	1,168 (96%)	994 (98%)
2016	1,602 (92%)	1,166 (98%)

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

	Suppliers to Kao Corporation	Suppliers to the Asian Kao Group
2012	767 (99.6%)	463 (98%)
2013	818 (99.5%)	541 (98%)
2014	879 (99%)	608 (97%)
2015	1,254 (97%)	750 (97%)
2016	1,616 (94%)	838 (97%)

Implementation of vendor summits

Each year, we hold vendor summits to provide a place to share information and exchange opinions on selected themes. We also hold them for our partners at main Kao Group companies overseas. There, we strengthen partnerships with suppliers.

At vendor summits held in 2016, we announced upcoming changes to the Kao Human Rights Policy and Kao Business Conduct Guidelines (BCG), and described other initiatives in detail, including sustainable raw materials procurement and collective procurement of indirect materials. We also asked suppliers to actively cooperate with the CDP Supply Chain Program^{*1}, which is an initiative to strengthen coordination with suppliers, and to join Sedex. In 2016, we began to award suppliers for excellence in the areas of Quality, Cost, Delivery, Information Sharing, and Company Management and Sustainability.

Number of companies that participated in the vendor summit

(Unit: company)

	Held in Japan	Held outside Japan	Total
2012	—	205	205
2013	184	151	335
2014	183	233	416
2015	214	285	499
2016	246	279	525

* Due to Kao Corporation's change in the fiscal year end, a vendor summit was not held in Japan during FY2012.

CDP Supply Chain

We recognize risks associated with sustainable development based on resource constraints, loss of biodiversity, global warming and other environmental problems, and are working to sustainably procure raw materials. These initiatives need to be managed across the entire supply chain. For climate change and water, we are participating in the CDP Supply Chain Program^{*1} and asking our key suppliers to disclose information. Relating to forest resources, we are conducting risk assessments by providing information to the CDP Forest Program^{*2}.

*1 CDP (Carbon Disclosure Project) Supply Chain Program
CDP is an international NPO (with its headquarters in London) that is sponsored by institutional investors; CDP implements various activities to encourage business enterprises etc. to disclose information relating to climate change, water use and forest resource use. The CDP Supply Chain Program is an initiative in which participating enterprises ask the firms that make up their supply chain to disclose information relating to climate change and water resource use via the CDP platform.

*2 CDP Forest Program
A CDP initiative in which enterprises are asked to disclose information regarding forest resource management and usage status, etc.

Sustainable and responsible procurement (15, 27, DMA, LA15, HR11, SO10, EN33)

Conducting the supplier satisfaction survey

Japan

We conduct supplier satisfaction surveys every three years in order to ensure that procurement activities are carried out fairly and equitably. We conducted the survey in 2016 and received valuable feedback from suppliers on topics including vendor

selection, quality, ordering, service and communication. Issues were also identified, and we are taking steps to make improvements.

Growing together with our employees (DMA)

Kao's approach

People are a company's most important asset. Kao strives to create an environment and corporate culture in which both individuals and the company can achieve growth through maximizing each employee's potential and making a positive contribution to society.

Social issues and Kao's approach

With regard to Kao's response to the trend toward smaller families and the aging of the population in Japan, as well as the issue of changing work styles, Kao is expanding its support measures in relation to childcare, nursing care and long-term care needs, and is implementing measures to promote active cultivation of female employees, expand the continued employment and active utilization of older employees (who have already passed retirement age), and reduce the incidence of long working hours by enhancing efficiency and changing attitudes.

In addition, in order to promote diversity among Kao employees, a new Diversity & Inclusion (D&I) Division was established in 2016, and we are working to strengthen the promotion of diversity and inclusion on a worldwide basis.

Furthermore, reflecting Kao's awareness of the fact that employee health represents not only a key foundation of each employee's life but also an important asset for the company and a fundamental source of corporate growth, Kao is providing active support to encourage employees to look after their own health properly.

Policies

The efforts of each and every employee to pursue individual achievements by exercising his or her own abilities and characteristics to the utmost can contribute to the success of the employer. Based on this concept, Kao aims to create such an environment and corporate culture. To this end, Kao has defined this policy as Guidelines for Human Capital Development and has made clear what constitutes an "Ideal

Organization" and "Ideal Human Capital." With the objective of achieving this policy, we provide various opportunities and support for employees to develop their skills and capabilities within Kao's line management framework in accordance with their own level of motivation, individual characteristics and organizational goals.

Guidelines for Human Capital Development

Continuously improve overall efficiency based on creative and innovative activities aimed at the sustainable growth of the Kao Group through *Yoki-Monozukuri*.
(Pursuit of efficiency)

Provide a work environment where each individual's dignity is respected, and which makes full use of employees' autonomy and diversity, since the enthusiasm of all employees to display their boundless wisdom is the wellspring of creation and innovation.
(Respect for human dignity)

Integrate organizational efforts and individual efforts through creative and innovative activities so as to achieve evolution for all. Make efforts to improve policies in order to offer all individuals freedom to display wisdom, and to enable combined individual efforts to lead the Kao Group to further prosperity.
(Efforts for integration)

Vision of Human Capital Development

Ideal Organization

We are committed to building organizations that are characterized by openness and frankness so as to encourage people to pursue innovation, by empowerment of greater transparency, and by organizational management based on the Kao Way. We also endeavor to actualize organizations in which the entire Kao Group operates harmoniously based on the concept of an "organically functional organization" which flexibly and quickly adapts to environmental change.

Ideal Human Capital

1. People with consistent challenging spirits
Challenge & Change
2. People with high expertise
Professional Capabilities
3. People with a global perspective
Global Perspective
4. People with the team spirit to achieve superior performance
Communication & Collaboration
5. People with strong ethics
Integrity

Structures

To promote activities within the Kao Group in accordance with the Guidelines for Human Capital Development, we have introduced a framework that is shared and utilized globally. For example, we manage labor costs and make use of human capital information via a global human capital information system. We also improve our organizational capabilities through the employee opinion survey *Find* and bolster our human capital management and development through the establishment of job rank, evaluation and training systems—as well as compensation policies—that are shared globally.

Under our matrix management, we pursue these activities in cooperation with the human capital development divisions of each Group company, both inside and outside Japan. Furthermore, Kao has set up human affairs functions within its major divisions while also establishing on-site career coordinators who oversee the nurturing of each employee and provide assistance in career development.

Human capital cultivation: helping every employee maximize their potential (DMA, LA10)

Kao's approach

The ultimate goal of human capital cultivation is to unlock the latent potential that every individual employee possesses. Kao's workforce is characterized by a high degree of diversity; by helping all employees to take on work that is tailored to their individual capabilities and that challenges them and helps them to grow, Kao will be able to demonstrate even higher levels of creativity in the future.

Social issues and Kao's approach

By the year 2030, the Kao Group aims to have established itself as a business group with a global presence. The key to realizing this vision is "Challenge & Change." As an enterprise that genuinely cares about how consumers feel, Kao views the

cultivation of human talent that is capable of responding to changes in society in the environment in which the Kao Group operates, and is capable of operating effectively on the global stage, as a key issue.

Policies

While continuing to promote the strengthening of our business operations, Kao is also working to cultivate leaders who embody and disseminate the behavior and values that are the source of Kao's strength. We are also striving to promote career development for every employee in every organization within the Kao Group, aiming to provide attractive opportunities for cultivation and growth.

In addition, we are endeavoring, on a global level, to motivate employees to develop their capabilities and careers, with support from the company, and to find, nurture and promote across the Group as a whole those employees with motivation and skills, ultimately leveraging their maximum potential.

Structures

Kao Group Global Common Training Program Scheme

		Marketing	Sales	SCM	R&D	Information Systems
SMP Level	Global Leadership Development Program II					
	Global Top Management					
MP Level	Promotion Task (G3)					Stage 3 Integrated IT Training
	Global Leadership Development Program I	Marketing Leadership Training	Global Key Account Training	SCM Training	Specialist Programs Managers and Supervisors Forum	Stage 2 Methodology training (application)
	Managing Human Performance Program	"Marketing University" "Master" Level	Trade Marketing Excellence	"High Pressure Academy"		Applied application Training
LS Level	Training Program for International Assignment	"Marketing University" Basic Level	Key Account Management Excellence	"Global Techno-school"		Applied technology training
	Business Skills Facilitation, negotiation, project management	Marketing Fundamentals III	Customer Service Excellence	Global Engineer School	Science Basics Academy	Stage 1 Methodology training (basic)
S Level	Kao Way Integrity	Marketing Fundamentals II	Field Sales Excellence	SCM Basic Course	"Freshman Forum"	Basic application training
	New Employee Orientation	Marketing Fundamentals I	Merchandising Excellence			Basic technology training
						Specialist IT training for new employees

* SMP Level: Senior management/senior professional level
MP Level: Management/professional level

LS Level: Leading staff level
S Level: Staff level

Human capital cultivation: helping every employee maximize their potential (DMA, LA10)

Mid- to long-term targets

1. Training programs that promote growth by helping employees to identify and develop their capabilities

Global leader cultivation

- In cultivating future leaders who can drive Kao's global business development, Kao collaborates with leading international business schools to implement intensive training. Besides working to enhance trainees' management skills, there is also a concerted effort to build human networks and to disseminate the values associated with Kao's *Yokai-Monozukuri*.

Providing employees with diversified cultivation support

- In-house trainers are cultivated at individual Kao business locations around the world, working with speed and attention to detail to ensure that all Kao employees absorb the Kao Way and Kao's emphasis on integrity.
- Kao also makes effective use of new learning tools such as e-learning and other Internet-enabled tools for language learning, etc. Besides creating new learning environments in this way, Kao also actively supports employees' own self-directed learning efforts.
- In Japan, recognizing the growing importance of career development that takes into account the work styles appropriate for employees who wish to continue working after the age of 60, starting from 2017 Kao is implementing a new 50+ Career Seminar for employees who have reached the age of 50 (as a pilot project, starting with Kao Corporation), in addition to the existing Life Career Design Seminar for employees who have reached the age of 45 and the Life Plan Seminar for employees in their late 50s.

2. Fair and transparent evaluation and career development support

Fair and transparent evaluation

- Kao clearly states the roles and responsibilities of its employees, and endeavors to fairly evaluate their performance on a regular basis and appropriately reflect achievements in rewards and compensation on a global basis. (Since January 2013, Kao has standardized its performance management system with affiliates in Japan, Europe, the Americas, and parts of Asia, and has put into full-scale operation an infrastructure to facilitate fair and transparent evaluations by common metrics.)

Career development support

- Kao has been formulating and implementing integrated career development plans and new employment policies, with the aim of realizing systematic recruitment, assignment and cultivation for the Kao Group as a whole.
- Kao is promoting individual career development throughout the Kao Group for all employees (regardless of which Group company they are employed by and regardless of the type of employment), and is building an environment in which all employees have the opportunity to challenge themselves while working toward the achievement of concrete goals. (In November 2013, we also rolled out our Self Education & Development Scheme (SeEDS), which aims to support individual skills and career development, and we are moving to successively deploy and operate the scheme at Group companies in each country.)

2016 results

1. Training programs that promote growth by helping employees to identify and develop their capabilities

Global leader cultivation

- The Global Leadership Development Program is being implemented as a global program common to all Group companies, in which members selected from individual Kao Group companies study Kao's challenges from a broader perspective and make proposals to top management. The Program had 36 participants in 2016 (15 from Kao Group companies outside Japan, and 21 from Kao Group companies inside Japan). In 2016, Kao worked to strengthen individual cultivation, by incorporating participation in business school open lectures focused on specific topics and individual presentations, etc.
- We have implemented the rollout of the Managing Human Performance Program (MHPP) in each country across the globe to strengthen line management capabilities. In 2016, a total of 276 employees underwent MHPP training in Japan. In addition, because extensive revisions had been made to the teaching materials, additional training seminars were held for the cultivation of in-house instructors, with nine instructors from Japan and 20 from outside Japan taking part. Implementation of the revised MHPP program will be launched in Kao Group companies outside Japan starting from 2017.

Providing employees with diversified cultivation support

→p.109 Culture > Putting the Kao Corporate Philosophy into practice

→p.113 Culture > Integrity

2. Fair and transparent evaluation and career development support

Fair and transparent evaluation

To ensure fair and transparent evaluation and treatment, since 2013 Kao has been rolling out a standardized performance evaluation system across all Kao Group companies; in 2016, Kanebo Cosmetics Inc. also began to adopt this performance evaluation framework.

Expenditure on education and training per employee (consolidated)

2012	2013	2014	2015	2016
56,000 yen	55,000 yen	63,000 yen	69,000 yen	66,000 yen

Promoting diversity & inclusion

(10, DMA, LA1, LA3, LA10, LA12)

Kao's approach

Kao believes that the vitality that derives from diversity can create new value for society. Reflecting this attitude, Kao aims to create an organizational environment which is accepting of the diverse personalities and values of individual employees, and in which all employees are able to demonstrate their passion and their capabilities to the maximum possible extent.

Social issues and Kao's approach

The promotion of Diversity & Inclusion (D&I) not only helps to underpin the exercise of creativity and innovative thinking by employees, it also serves to strengthen the organization's ability to cope with risk, and constitutes a key aspect of Kao's mid-term organizational development and human capital development planning.

Policies

Kao is putting in place the corporate ethos and frameworks needed to enable the company's highly motivated employees to demonstrate their capabilities to the maximum extent. Taking as a foundation the relationship of trust that has been formed through smooth communication between management

and employees, we are working to create an environment in which employees can focus on their work with peace of mind, and an ethos and environment in which employees of all kinds feel that they are rewarded for doing their utmost.

Structures

Matters relating to D&I promotion strategy etc. for the Kao Group as a whole are discussed by the Human Capital Development Committee, consisting of executive officers. To ensure the dissemination and effective implementation of D&I promotion in day-to-day management, Human Capital Development Meetings and D&I Awareness Activity Meetings are held, realizing the sharing of information, exchange of ideas, and discussion, across a broad spectrum. Individual Kao Group companies and divisions formulate and implement D&I Promotion Plans based on analysis of the current situation,

with the aim of ensuring continuous improvement. The D&I Awareness Activity Meetings, which are attended by responsible managers from nine Kao Corporation business locations and six major Group companies, undertake the dissemination of information regarding the D&I Awareness Months that are held five times a year, report on the holding of special events in response to employee requests, and share information about the latest D&I-related topics, etc.

The Meetings outlined above also introduce new topics to one another, to facilitate multi-layered D&I promotion.

Education and promotion

Recognizing that managers have a particularly important role to play in the realization and dissemination of D&I, Kao has begun implementing Diversity Management Training Sessions for managers in Japan since 2016. The aim is for every Kao

manager to have attended at least two of these training sessions by 2019.

➔For more details, see "Specific initiatives: Support for the active utilization of diverse human capital"

Promoting diversity & inclusion (10, DMA, LA1, LA3, LA10, LA12)

Mid- to long-term targets

Within Japan, Kao will continue to implement measures aimed at creating an environment and corporate ethos that encourage all employees to enthusiastically play an active role in the company, regardless of gender, disabilities, or whether they have childcare, nursing care or other family responsibilities.

Up until now, individual Group companies in each country have implemented various measures of their own; however, in the future, we will be promoting the establishment of a unified framework across the whole Kao Group, including Group companies outside Japan.

Through these measures, Kao aims to build an organization that respects and actualizes every individual employee, regardless of that employee's personal attributes.

2016 results

In 2016, Kao Corporation established the new D&I Division to guide the promotion of D&I within the Kao Group, and also endeavored to strengthen Kao Group's D&I related activities. To further enhance the global coherence of Kao's D&I promotion activities, a survey was conducted of D&I promotion status at individual Kao Group companies outside Japan. On the basis of the survey results, Kao will be working to share and implement a company-wide D&I promotion vision and action plan.

At Kao Group Customer Marketing Co., Ltd. (KCMK), which is mainly responsible for the selling of Kao products, a D&I Office has been established which reports directly to the company's President; initially, the new office has been focusing on implementing measures aimed at encouraging the active utilization of female employees in sales roles.

Collaboration with stakeholders

- In 2010, Kao signed the Women's Empowerment Principles, which are international guidelines for women's participation in society based on UN Women and the UN Global Compact.
- In 2015, Kao participated as a corporate member in a research meeting organized by an external think-tank to discuss the key factors relating to promotion of women's participation and advancement in the workplace in Japan. In 2016, Kao provided support for the publication of a report based on this meeting, and for the holding of a related symposium.
- Kao joined the Japan Institute for Women's Empowerment & Diversity Management and the Specified Non-profit Corporation Japan Women's Innovative Network (J-Win); besides providing an opportunity to access the latest information regarding the promotion of women's participation and advancement in the workplace, Kao's membership of these organizations also provides a venue for its female managers (and candidates for managerial positions) to obtain useful experience.
- Kao has provided sponsorship for the IkuBoss Project launched by Specified Non-profit Corporation Fathering Japan to help cultivate managers capable of implementing effective diversity management; in 2015, Kao joined the IkuBoss Alliance, which enables Kao to foster the exchange of useful information with other companies and utilize this information for in-house activities.
- Kao Peony Co., Ltd. has been providing support to help people with disabilities secure employment, including arranging workplace visits and arranging workplace training opportunities for students from special needs schools.

Promoting diversity & inclusion (10, DMA, LA1, LA3, LA10, LA12)

Specific initiatives

Support for the active utilization of diverse human capital

Global

- With the aim of clarifying the current status of and issues relating to D&I implementation, in each Kao Group company outside Japan, Kao conducted a survey targeting 41 companies in 17 countries. The survey results will provide a useful reference for the formulation of Kao's D&I promotion vision and action plans in the future.
- Kao Corporation has held the Diversity Management Training Session I (basic edition) on 10 occasions (with 327 trainees participating in 2016).
- With the goal of fostering the career development and cultivation of female employees, KCMK has established a D&I Promotion Portal Site to help young employees develop a clearer idea of the stages through which their career can progress. KCMK has also implemented various leader cultivation measures, including the arrangement of meetings between newly-appointed female managers and all their supervisors, and the holding of a discussion meeting between

- KCMK's President and newly-appointed female managers.
- Besides developing new career opportunities to enable older employees to continue to remain active and make a contribution after reaching retirement age by utilizing their experience and specialist expertise, either within Kao or elsewhere, Kao has also established a new Senior Career Consultation Service.
- In order to promote a better understanding of LGBT issues among Kao employees, the lectures that Kao introduced in 2015 continued to be implemented in 2016, at two worksites, in addition to the implementation of related in-house training activities. As a new measure in 2016, Kao has been working to raise awareness among beauty advisors and beauty counselors, and has been distributing explanatory leaflets. Kao is also working steadily to create an office environment that is user-friendly for everyone by changing the labeling on multi-function restrooms.

Number of Kao Group employees (regular employees)

	Total (persons)	Male (persons)	Female (persons)	Percentage of female employees
Total	33,195	16,863	16,332	49.2
Japan	21,991	10,861	11,130	50.6
Asia and Oceania (excluding Japan)	7,312	3,922	3,390	46.4
Europe and the Americas	3,892	2,080	1,812	46.6

Status of regular employees (Kao Corporation)

	2014	2015	2016
Regular employees (persons)	6,664	6,970	7,195
Male	5,188	5,414	5,568
Female	1,476	1,556	1,627
Percentage of female employees (%)	22.1	22.3	22.6
Percentage of female managers (%)	8.5	8.7	14.0
Percentage of female executive officers (%)	7.4	8.8	8.8
Average age (years)	42.0	41.7	41.2
Male	43.1	42.6	42.0
Female	38.3	38.6	38.5
Average length of employment (years)	19.1	18.5	18.3
Male	20.6	19.8	19.4
Female	13.8	14.1	14.5
Number of recent graduates hired (persons)	268	264	283
Male	193	195	214
Female	75	69	69
Turnover (%)	0.6	0.7	0.5

Status of female employees in the Kao Group

	2014	2015	2016
Percentage of female employees (%)			
Global	53.0	52.5	49.2
Japan	55.3	54.8	50.6
Percentage of female managers (%)			
Global	27.6	27.5	25.4
Japan	10.1	10.4	13.1
Percentage of female executive officers (%)			
Global	6.4	6.5	6.7
Japan	2.6	3.1	4.1

*The definition of "managers" was revised in 2016 in line with Kao's promotion of a unified company-wide operation.

*The figure given for "Percentage of female executive officers" covers executive officers of major Kao Group companies (52 companies, in 2016).

Number of instances of re-employment after retirement (Kao Corporation)

Year	Number of employees who reached the retirement age*	Number of re-employment after retirement	Percentage
2014	152	116	76.3
2015	125	94	75.2
2016	104	86	82.7

* Number of employees who reached retirement age = Number of retired employees + Number of instances of re-employment after retirement

Promoting diversity & inclusion (10, DMA, LA1, LA3, LA10, LA12)

Promoting better understanding of disability, and promoting the employment of persons with disabilities

Japan

In line with its basic policy "Striving for a society where people with and without disabilities work and live together, Kao creates workplace environments for employees with disabilities that are conducive to work and offer reward." Kao actively promotes recruitment of persons with disabilities, both at its regular workplaces and at its special subsidiary, Kao Peony Co., Ltd.

Measures implemented at regular workplaces

- To further understanding regarding employment of persons with disabilities throughout the company, Kao has established September as a special awareness month, and has been publishing educational newsletters for employees, holding "Learning about Disabilities" seminars (which include visits to the Kao Peony facility), and conducting other relevant activities.
- In response to the coming into effect of the amendments to the Act on the Promotion of the Employment of Persons with Disabilities in April 2016, we have put in place a company-wide consultation system based around the Vocational Life Consultants for Persons with Disabilities; Employees with Disabilities Support Meetings are held for Advisors, as part of our efforts to strengthen the support system.
- To strengthen communication support for hearing impaired employees, Kao has adopted UDTalk speech-to-text software, which can be utilized effectively in day-to-day business conversations, in-house training activities, lectures, etc.

Measures implemented at special subsidiaries

- Kao Peony Co., Ltd. was established as a special subsidiary in October 2005, with the goal of encouraging hiring of those with disabilities. As of January 2017, a total of 23 employees work there, including 19 with intellectual disabilities; they are primarily involved with packaging and setting of cosmetics and personal care products.
- In 2016, Kao Peony Co., Ltd. celebrated the 10th anniversary of the granting of Special Subsidiary status to the company in April 2006. A special Appreciation Meeting was held to mark this anniversary, which people (from both within and outside the Kao Group) who have provided support for the company since its establishment were invited to attend.

Currently, persons with disabilities account for 2.10% of the total workforce of the Kao Group within Japan, exceeding the statutory minimum figure of 2.0%.

In the future, Kao will be working to further expand the employment of persons with disabilities at regular Kao workplaces; in 2017, it is anticipated that there will be an expansion in employment opportunities for persons with disabilities.



Kao Peony Co., Ltd. employees carrying out packaging operations



Appreciation Meeting held to mark the 10th anniversary of the founding of Kao Peony Co., Ltd.

Kao Group employment rate of people with disabilities*



(As of June 1, 2016)

* Calculation based on inclusion of 11 domestic affiliates that are required to employ people with disabilities (Kao Corporation, Kao Customer Marketing Co., Ltd., Kao Field Marketing Co., Ltd., Kao Professional Services Co., Ltd., Kao Sanitary Products Ehime Co., Ltd., Kao Logistics Co., Ltd., Kao Business Associe Co., Ltd., Kanebo Cosmetics Inc., e'quipe, LTD., Kao Cosmetic Products Odawara Co., Ltd. and special subsidiary Kao Peony Co., Ltd.)

Realization of diverse work patterns

Japan

2016 initiatives

With the aim of providing support for the different work patterns of the company's diverse employees, Kao has reviewed and made changes to its childcare, nursing care and family care support systems.

Kao has adopted new systems that are able to flexibly support diversified work styles, such as Kao's flexitime system (under which employees can set their own times for starting and finishing work between the hours of 07:00 and 20:00), etc.; Kao is also implementing work pattern reforms to enhance productivity.

2016 results

- In the past, Kao employees who needed to take leave to provide nursing care or long-term care for family members were able to make use of a special leave system that allowed them to take such leave from their own sick leave allowance; however, Kao has now introduced an independent system of Special Nursing Care and Family Care Leave (starting from January 2017).
- Kao has extended the length of the period during which employees can make use of the shortened working hours and flexible working hours for employees with nursing care or family care responsibilities (starting from January 2017).
- In May 2016, Kao Corporation was awarded Platinum Kurumin Certification for creating a supportive workplace for employees with children, in accordance with the provisions of the Act on Advancement of Measures to Support Raising Next-generation Children.



Platinum Kurumin Certification

Use of childcare support system (Kao Group in Japan)

		2014	2015	2016
No. of employees taking child-care leave (persons)	Female	638	640	612
	Male	106	127	105

Rate at which paid holidays were used at Kao Corporation

	2014	2015	2016
Rate	70.9	65.8	71.7

Main systems for supporting diversified working styles

- Flexitime system
- Hourly leave system
- Family leave for personnel on overseas assignments
- Special leave for volunteering activities
- Special nursing care and family care leave
- Leave system for childcare, nursing care and family care
- Shortened working hours system for childcare, nursing care and family care
- Overtime work exemption system for childcare, nursing care and family care etc.

Main systems for supporting work-life balance

Support for balancing work and child-care responsibilities

- Holding of F&M (Father & Mother) Meetings (discussion meetings, seminars, etc. for male and female employees with children)
- Seminars for those returning from child-care leave (Tatsuno-oshigoto Seminar)
*It is recommended that employees' partners also attend the seminar.
- Provision of an on-site day care facility (Merries Garden)
- Pre- and post-child-care leave interviews
- Child-care leave reports
- e-Learning for managers ("Work and Life Balance Management")

Support for balancing work and family care responsibilities

- Holding of family care seminars
- Provision of family care handbooks
- Establishment of an external family care consultation service

General work-life balance measures

- Encouraging employees to make full use of relevant allowances and services
- Awareness-raising activities for managers, including manager training sessions, lectures, etc.
- Dissemination of awareness-raising newsletters
- Provision of the Work and Life Balance Guidebook

Promoting dialogue with employees (27, DMA)

Kao's approach

Kao strives to develop good workplace environments on the basis of its firm recognition that favorable relationships and communication with employees are one of the most important aspects of the corporate culture. In addition to creating various opportunities for dialogue with employees, we conduct employee opinion surveys periodically.

Social issues and Kao's approach

Kao eliminates authoritarian approaches and places great importance on a corporate culture in which top management and employees collaboratively work together to achieve business goals.

In order to build favorable relations, we provide opportunities for sharing and discussing with employee representatives with regards to the company's current situation and policies as well as measures for human capital development.

Policies

Kao strives to foster understanding between top management and employees by facilitating opportunities for mutual talks, with the objective of developing unity throughout the Kao Group and enhancing employee motivation.

We promote mutual understanding between senior management and employees by providing opportunities for opinion exchanges whereby the senior management explains priority issues such as the company's current situation, policies and human capital development to employees as well as responding to their questions. In addition, we establish an understanding of the genuine concerns and opinions of employees through actively conducting exchanges of opinions which then feed into ongoing measures to develop human capital and improve a workplace environment, among other

undertakings.

We also conduct employee opinion surveys periodically to realize the goal of creating a "Great place to work." We then confirm strengths and areas for improvement of respective organization by visualizing the organizational status using numerical data. Subsequently, we identify our challenges based on analyses of these results and set and implement effective action plans. In these ways Kao endeavors to consolidate the RPDCA cycle* to improve its organization and workplaces.

*RPDCA cycle

This adds "Research," which equates to "analysis of the current situation" to the PDCA cycle for operational improvements, and has allowed us to heighten response capacities for changing statuses.

Promoting dialogue with employees (27, DMA)

Structures

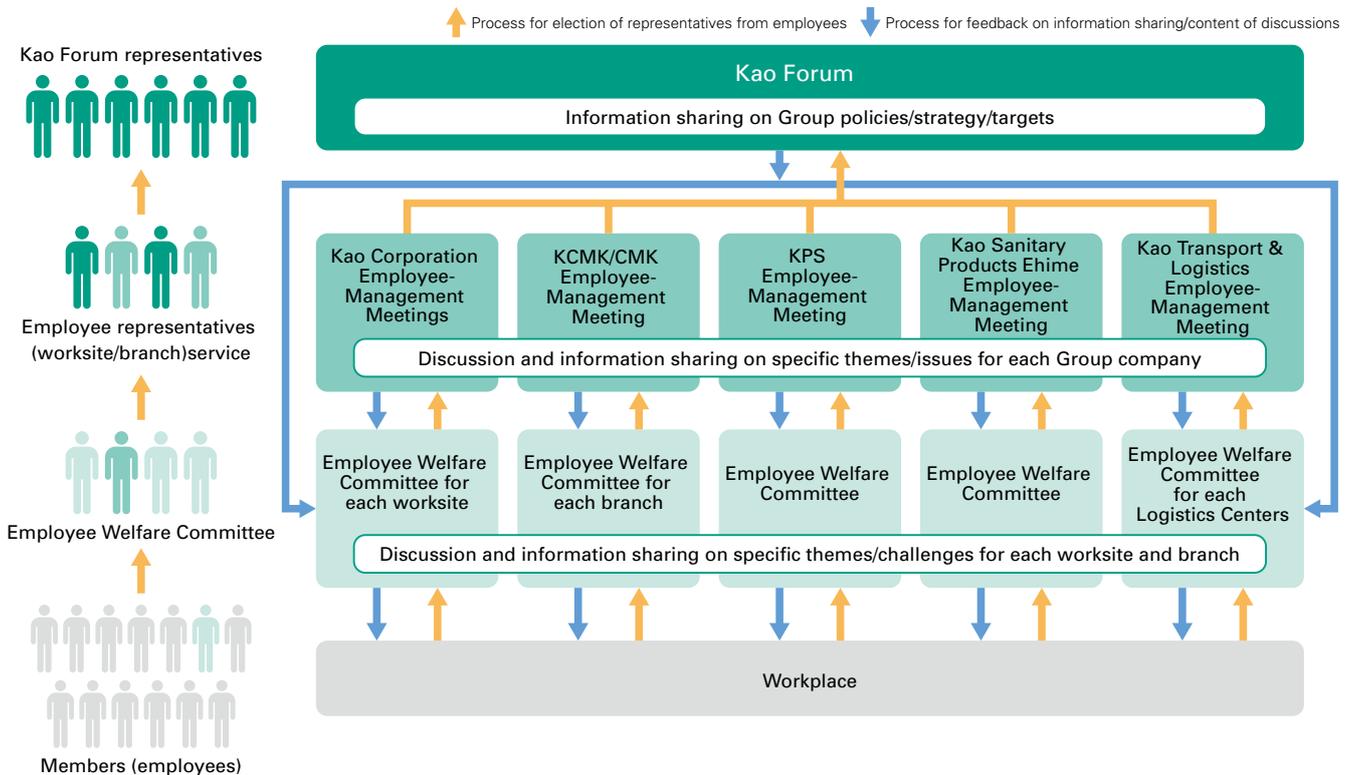
Platforms for regular dialogue with employees include Employee Welfare Committees at each worksite and branch, Employee-Management Meetings at every Group company and the Kao Forum for the Kao Group as a whole.

At the Kao Forum, employee representatives from Kao Corporation, Kao Group Customer Marketing Co., Ltd. (KCMK), Kao Customer Marketing Co., Ltd. (CMK), Kao Professional Services Co., Ltd. (KPS), Kao Transport & Logistics Co., Ltd.,

and Kao Sanitary Products Ehime Co., Ltd. participate.

The Employee Welfare Committee is conducted monthly, with the Employee-Management Meetings and Kao Forum conducted two times per year. Continuous and mutual information sharing on the content of the discussions and information shared at the various meetings is implemented for all employees through the employee representatives and Employee Welfare Committees.

Employee dialogue structure



Mid- to long-term targets

Enhance and consolidate RPDCA cycle toward regular implementation of employee opinion surveys and organizational improvements.

2016 results

- In April 2016, the *Find* 2016 employee opinion survey was conducted globally, with 94% response rate from 33,208 target employees.
- In January and July 2016, Employee-Management Meetings in each Kao Group company and the Kao Forum were conducted. The Kao European Forum was conducted for the European region in May 2016, with 18 persons participating as employee representatives. At the Kao Forum, where employee representatives from Kao Group companies assemble, a total of 29 employee representatives participated: 15 from Kao Corporation, 10

from KCMK/CMK, two from KPS, one from Kao Transport & Logistics, and one from Kao Sanitary Products Ehime. Questions were fielded from employee representatives, including those on the orientation of respective business areas, product development and deployment of sales measures, and social actions. Many opinions were received from employee representatives including: "My sense of belonging to the Kao Group has increased" and "I learned more about our direction and approaches which will serve as a good index for the future."

Specific initiatives

Implementation of the *Find* 2016 employee opinion survey, and drafting of action plan

Global

We conducted a regular survey on employee opinions—the *Find* 2016, employee opinion survey—for 33,208 persons within and outside Japan, with a high employee response rate of 94% achieved. Question items were set in the four categories of “Company/Organization Function,” “Business Function,” “Employee Function” and “Satisfaction with Company/Work.” Strengths and areas for improvement in respective organizational units, and areas where changes to environments lagged were identified, and action plans were drafted through discussions at respective organizational units.

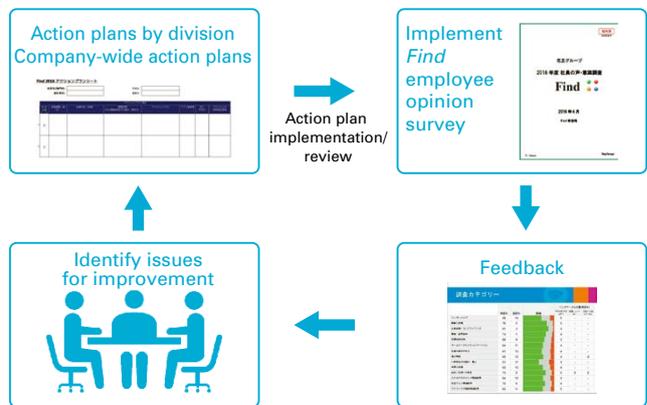
This survey is implemented once every two years; with the first year focus on survey implementation, results analysis and development of action plans. In the second year, the action plans are then put into practice. Subsequently, an RPDCA cycle is put into motion to confirm the results of the initiative in the following year’s survey.

On the basis of the 2016 survey results, company-wide action plans were developed to “Achieve K20, foster a culture in which each employee can create changes and in which the company and the employees jointly tackle challenges.” In addition to this action plan, more effective and practical action plans were developed for the challenges of respective companies and organizations.

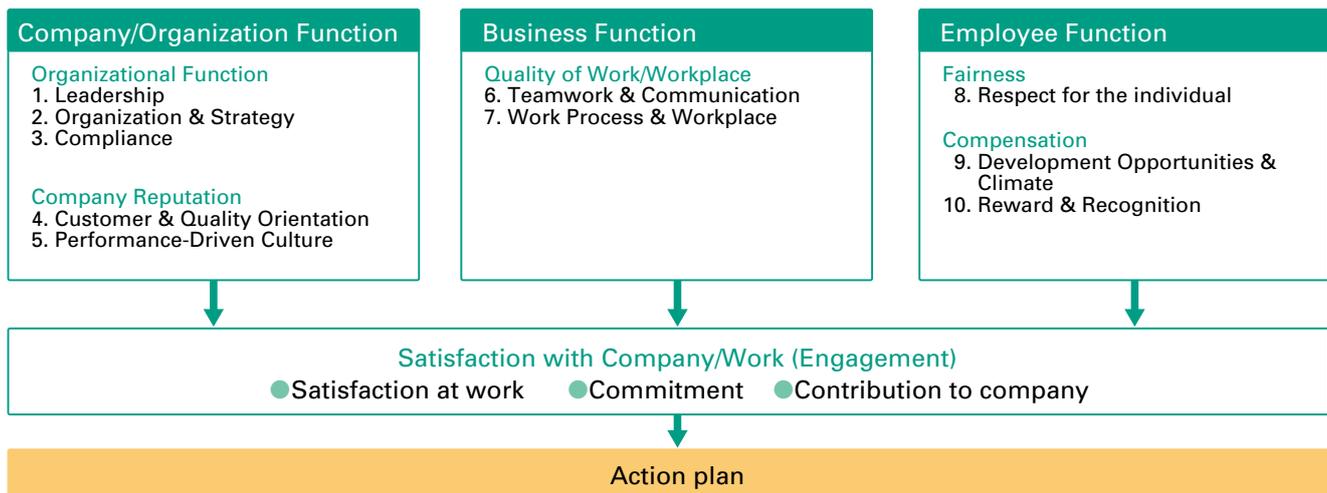
In FY2017, we will engage in initiatives to instill awareness

of the responsibility of individuals for the various action plans among all employees. We will regularly confirm progress status among the company and employees, to put into practice more steadfast action plans. We will confirm the outcomes through the next *Find* survey planned for 2018 roll-out while continually endeavoring to improve organization.

RPDCA to improve organizational capacities



Questionnaire items for *Find*



Toward enriched and healthy lives (DMA)

Kao's approach

Dedicated to helping people around the world in the areas of cleanliness, beauty and health, we strive to make a major contribution toward enriching people's lifestyles. The good health of employees is a prerequisite—at both the public and private levels—for full and satisfying lives. We believe that helping our employees and their families stay fit and healthy has a vital role to play in ensuring the company's successful future business development. This also allows us to contribute to society. Recognizing that the most important asset that the Kao Group possesses is people, we actively engage in health promotion by supporting healthy lifestyles, which are fundamental to the effective deployment of our human capital. In 2008, the Kao Group Health Declaration was disseminated both inside and outside Group companies, and we continue to engage in Health and Productivity Management using the PDCA cycles for health promotion.

Social issues and Kao's approach

At Kao, we aim to improve our corporate activities by helping increase the number of healthy employees and families, and creating lively and spirited workplaces. We will achieve this by supporting the health of employees and their families in cooperation with the Kao Health Insurance Society.

We continue to endeavor to limit excessive medical expenses through preventive initiatives including the promotion of lifestyle improvements and active implementation of various health guidance.

We are focusing efforts on the control of long working hours through promotion of modulated work styles and mental health training for manager from the perspective of promoting pleasant workplaces.

Furthermore, the health promotion programs for Kao employees are also provided for external use and are being deployed in the promotion of health in regions and other workplaces.

We hope that the initiatives at Kao will have a positive influence on societies and regions and lead to increased lifespans and a healthier society.

Major activities

- Conduct follow-up examinations for persons based on the health check-up results and encourage early treatment as needed to decrease lifestyle diseases and cancer-related diseases
- Reduce medical expenses by recommending switching to generic medicines
- Enhance work management
- Prevent passive smoking
- Provide health support for families (dependents)

Example programs

- Visceral fat and lifestyle check
- Dietary method to eat well without gaining weight (Smart Japanese meals)
- Program to achieve a youthful stride in and around the workplace (HocoTouch)

Policies

The Kao Health Declaration

To spend every day in lively good health

We aim to become a company which inspires engagement with the promotion of healthy bodies and minds alongside our customers while helping to realize healthy and enriched lives through the creation of lively and spirited workplaces

Fostering employees with high health literacy

We are working to make our health promotion activities more visible, engaging in Health and Productivity Management using the PDCA cycle to increase employee health in order to increase the number of employees with high health literacy.

We consider employees as having high health literacy if they demonstrate the following behaviors:

1. Reviews and improves lifestyle independently, based on health check-up results
2. Consults with private physicians in regard to health check-up results as needed (rather than just consulting occupational physicians)
3. Maintains awareness of their mental health, and confers with appropriate professionals as needed

Five health promotion initiatives

Rather than merely fulfilling the minimum requirements for health management required as a company, we implement health promotion in line with the five core initiatives below. Health promotion refers to the independent maintenance and improvement of employee health through employee behaviors.

1. Lifestyle diseases
2. Mental health care
3. Smoking cessation
4. Cancer
5. Women's health

Structures

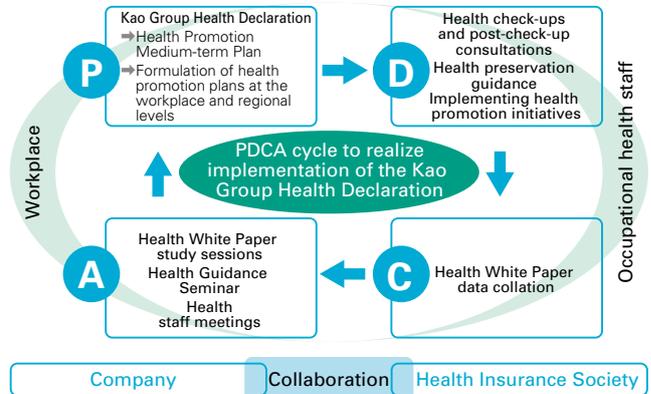
Increasing visibility of the Health Promotion Management System

As part of this initiative to increase visibility, we have, since 2009, provided 18 health consultation rooms nationwide with a statistical summary of health data not specified individually (medical interviews, health check-ups, occupations, diseases, etc.).

Each health consultation room then drafts and implements a health services plan based on the health data for their respective regions.

Since 2009, we have held annual Seminars of White Paper on Health to provide opportunities to study methods of analyzing the various types of health data and have, along with relevant supervisory personnel and occupational health nurses, formulated measures to address any issues.

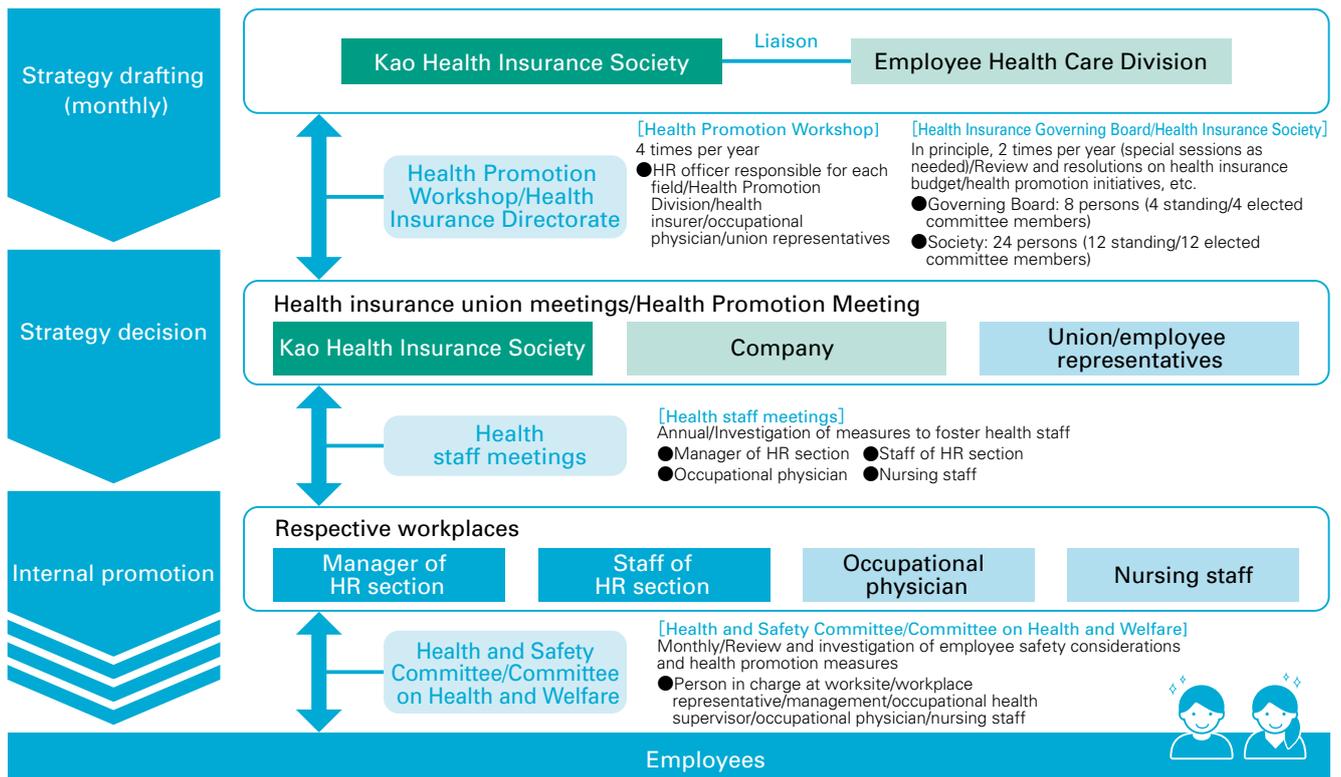
Health Promotion Management System



Systematization of framework to promote health

Health promotion strategy planning is implemented in an integrated manner between Kao and the Health Insurance Society, with discussions conducted in regular monthly meetings. Major strategies are finalized at an all-company Health Promotion Committee meeting after consideration by working groups, which also include employee representatives and the committee of the Kao Health Insurance Society. The promotional strategy is implemented at each worksite and Group company by the manager and staff of the HR section along with occupational physicians and nursing staff.

Health promotion framework



Education and promotion

For employees

- The Kao Group Health Declaration is distributed to all employees with proclamations on Health and Productivity Management also disseminated. These include President-issued directives for: "Promotion of Health and Productivity Management in the Kao Group as a whole, with employee health as the foundation for Group growth"; or those that "The President will set and put into practice health targets. I would also urge each individual employee to set their health targets for the year and put these into practice."
- Various on-site campaigns, seminars and health promotion activities are deployed in line with the five core initiatives.

Deployment of all-company health promotion activities

- Web-QUPiO* users: 12,560 persons (49%)
- Health Declaration participants: 465 persons (4%)
- Implementation of Spring Walking Campaign: 3,257 participants (including families)
- 42-day Kao Group Smoking-Cessation Campaign: 243 participants
- Provision of health information by such means as bulletins and posters: 2 times for around 27,000 persons in 2016

* Web-QUPiO

A tool for disseminating health information/viewing health results/recording lifestyle improvements/participation in various campaigns

Deployment of health promotion activities at all worksites (planning of events/seminars/campaigns)

- Lifestyle disease-related: exercise and nutrition seminars, strength tests, health fairs, lectures by occupational health practitioners, etc.
⇒ Held 439 times, total of 8,782 participants
- Women's health: women's seminars, change-of-life seminars, turning 30 milestone course, dietary improvement seminars ⇒ Held 5 times, total of 706 participants
- Smoking-cessation: smoking-cessation seminars, No Smoking Week, 42-day Smoking-Cessation Campaign
⇒ Held 15 times, total of 2,025 participants
- Mental health: mental health course, mental health training for beauty advisors and beauty counselors, new employees, promotees
⇒ Held 41 times, total of 3,376 participants

Fostering of health staff

- Annual health staff meetings are held to create consensus with regard to policies and facilitate sharing of information. Managers and staff of HR sections, along with occupational physicians and nursing staff, attend the meetings.
- We also implement Seminars of White Paper on Health to learn about how to understand health data and the formulation of occupational health plans, as well as Health Insurance Instruction Feedback Sessions aimed at improving health instruction by nursing staff.

Mid- to long-term targets

Objectives for Kao Group as a whole

1. Zero employee deaths from lifestyle diseases during their employment period
2. Halve the number of serious diseases stemming from lifestyle diseases
3. Reduce the number of persons suffering from mental illness and long-term absenteeism stemming from mental illness

Fostering employees with high health literacy

1. Reviews and improves lifestyle independently, based on health check-up results
2. Consults with private physicians in regards to health check-up results as needed (rather than just consulting occupational physicians)
3. Maintains awareness of his/her mental health, and confers with appropriate professionals as needed

2016 results

Employee health promotion status

- Ratio of persons undertaking regular health check-ups: 99.6%
- Follow-up examinations for persons based on the health check-up results: 90.7%
- Employees eating breakfast more than 3 times per week: 75.7%
- Employees exercising more than once per week: 43.5%
- Employees who get enough sleep and rest: 63.3%
- Employees who do not smoke: 73.8%
- Ratio of persons with potential signifiers of metabolic syndrome: Male-31%, Female-6%
- Persons receiving specific health guidance: Male-19%, Female-6.9%
- Ratio implementing specific health guidance: 63.2% (2015)

Collaboration with stakeholders

Influence on society and regional health services

The effective health services developed at Kao are also provided to working places other than Kao as well as regions. These are being put to use in tackling social health challenges such as lifestyle diseases and locomotive syndrome (musculoskeletal deterioration in the elderly which reduces or threatens their locomotive ability).

Representative examples include “the Kao visceral fat check station” provided in collaboration with the Japanese Association for Prevention of Obesity and HocoTouch, an original walking meter created by Kao to measure activity and improve communication. HocoTouch was provided to those living in temporary housing in Fukushima in support of the reconstruction efforts there. In 2016, these walking meters were used at a total of 100 locations and by over 20,000 people.

- The Kao visceral fat check station: implemented externally 13 times, with around 5,000 participants
- Lifestyle diagnostic meetings: implemented externally at 45 locations, and internally at 20 locations (total of around 7,000 participants)
- HocoTouch: 200 systems installed in 10 contracted locations (total of around 10,000 participants)
- Smart Japanese meals (Kao healthy meals: provided internally at 8 locations)

Since May 2016, we have been engaged in health promotion for the region’s elderly in Ishinomaki City, Miyagi Prefecture, in cooperation with the general incorporated association Replus and the Yamauchi Laboratory, Faculty of Humanities, Ishinomaki Senshu University under the shared theme of “continuous regional health promotion.” We collaborate in seminars on metabolic syndrome and locomotive syndrome, and health checks such as visceral fat measurements and gait analysis. Through this initiative, we aim to contribute to curbing the growing number of people in need of nursing care, reductions in social welfare spending, and shortages in care support numbers by raising the health consciousness of people of the region. As one activity outcome for 2016 at Replus, 3.47 million yen for preventive medicine and 18.9 million yen for preventive care effects were provisionally calculated and presented.*

We concluded the Partnership Agreement for Promotion of a Society for Health and Longevity with Miyazaki Prefecture in September 2016, and the three-party Partnership Agreement for Health and Longevity with Yamagata Prefecture and the Japan Obesity Prevention Association in January 2017. Both of these agreements use research know-how related to obesity and metabolic syndrome from long-standing Kao initiatives, and will be utilized to collaborate on the resolution of health challenges for the regions. We will specifically implement these in the form of visceral fat checks and seminars in the regions in collaboration with prefectural authorities. For Yamagata Prefecture, we will also lend a hand in spreading Health and Productivity Management promoted by the prefecture, including introducing the know-how from Kao’s employee and employee family health promotion activities to regional corporations.

We will contribute to the resolution of social health challenges through such partnership activities with regional authorities, in parallel to our provision of products useful for health.

*Replus 4th quarter Activity Report
<https://www.slideshare.net/daigohashimoto3/4ver>

Partnership with HCC

We have begun collaborative initiatives with Healthcare Committee Inc. (HCC), a Kao-affiliated company. These include health business focusing on provision of health information

using Web-QUPiO and recent collaboration on promotional enhancement of Health and Productivity Management.

Health insurer information exchange with other corporations

We participate in the HCC User Study meeting held annually by HCC to exchange information with health insurers at other corporations. We hold joint discussions with each health insurer at this meeting, where government policies and market trends as well as HCC approaches and services are presented.

In 2016, we conducted information exchanges on how respective health insurers promote government policies based on the Data Health Plan. Furthermore, we implement information exchanges among the specific members at meetings hosted by the General Incorporated Payer’s Association for Better Healthcare.

Web-QUPiO user health level improvement status

After comparing changes in the Body Mass Index (BMI) of users and non-users (including other companies and Kao) of Web-QUPiO provided by HCC, users recording the daily weight and lifestyle challenges saw a reduction in BMI over those who never logged in. In particular, there was a conspicuous difference in the BMI ≥ 25 (obesity group) values.

Example of health information provided by Web-QUPiO

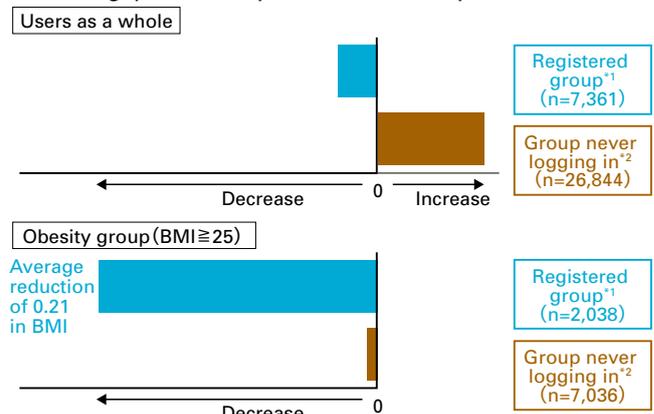


Visualization of health diagnostics result (charting of 12 health screening values for obesity, blood pressure, lipids, liver function, blood sugar)
 Blue area: normal, yellow area: attention required, red area: consultation required



Calculates “health age” and provides highly personalized information for health improvement

Variable gaps in BMI by use or non-use by Web-QUPiO



*1 Group logging in from April 2015–March 2016
 *2 Group never logging in to Web-QUPiO, random extract

Specific initiatives

Smoking-cessation initiatives

Japan

We will begin the no smoking during work hours initiative from January 2018 to meet rising societal demands to, for example, make all communal spaces completely non-smoking and to realize healthy and comfortable workplaces. In advance of this, we are implementing enhanced support for smoking-cessation such as furthering maintenance and repairs of smoking areas to reduce employee health risks and prevent passive smoking. In addition, we will hold subcommittee meetings at respective worksites and put into practice no smoking during work hours in reflection of employee opinion.

- Disseminated the Kao Group Smoking-cessation Initiatives policy within the Group in May 2016; announced no smoking during work hours initiative starting from January 2018
- Held subcommittee meetings at respective worksites to put the no smoking during work hours initiative into practice
- Held lectures in preparation for no smoking during work hours
- Implemented 42-day Kao Group Smoking-Cessation Campaign in January and May 2016. Total of 243 participants (of these, 85 succeeded in quitting smoking) (399% increase compared with the previous year)
- Implemented Kao Health Insurance Society-subsidized smoking-cessation treatment for 19 persons successfully quitting smoking



No smoking during work hours campaign poster

We will implement ongoing awareness-raising activities for the no smoking during work hours campaign of January 2018.

- Start distribution of smoking-cessation videos on the intranet
- Display 8 types of smoking-cessation posters
- Hold smoking-cessation sessions at each worksite

Promotion of mental health measures

Global

Kao employs stress checks and follow-ups, and encourages consultations to promote more preventive mental health measures.

We have multiple consultation windows (external EAP [employee assistance programs], internal counselors, health consultation rooms for each worksite and subsidiary, etc.) that offer various consultation services.

We also systematically implement trainings such as self-care and those aimed at managers.

2016 initiatives and practical implementation: Global

- Stress checks implemented: 96.3% completed
- Consultations for persons with check results indicating that they are highly stressed
- Establishment of consultation windows for overseas workers employing internal counselors

2016 initiatives and practical implementation: Japan

- Training for managers: held 6 times
- Self-care training: held 35 times
- Distribution of magnet including details of external EAP consultation windows to 360 persons
- External EAP usage rate: increased from 3.67% of inquiries to 5.73% of inquiries
- Outcome of consultations with internal counselors (focused on career interviews): 11,276 persons



Mental health self-care training session

We will promote improvements in workplace environments and endeavor to realize workplaces in which it is pleasant to work while conducting ongoing individual follow-ups and care based on the stress check results following stress checks.

Fostering employees with high health literacy

Global

We support employee health promotion from the two perspectives of the population approach (approach for groups as a whole, including healthy individuals) and the individual approach (approach for people with health risks) to foster employees with high health literacy. We also actively implement activities to encourage employee awareness.

2016 initiatives and practical implementation: Global

We implemented the following initiatives for a portion of employees in preparation for the global deployment of the programs

- Web-QUPiO users: 12,560 persons (49%)
- Health Declaration participants: 465 persons (4%)
- Spring Walking Challenge participants: 3,257 persons (including families)

2016 initiatives and practical implementation: Japan

- Lifestyle and visceral fat check meetings: held 21 times, with 2,054 participants
- Kao Healthy Meals provided at employee canteens at 6 worksites in Japan
- Enhanced follow-up examinations for health check-ups: 87.8% participation rate
- Consolidated Specific Health Guidance: 63.2% implementation rate
- Strengthened encouragement to families (dependents) to undertake check-ups



Various booklets to increase health literacy and Web-QUPiO

Occupational safety and health (DMA, LA6, LA10)

Kao's approach

Kao stipulates basic occupational safety and health criteria to maintain a workplace environment in which all employees can work in peace of mind. We also implement various activities to ensure the safety and health of all employees.

Social issues and Kao's approach

Kao has defined an activities policy for "occupational safety and health" as part of the Kao Responsible Care Policy to address the necessity to prevent occupational accidents, and for health promotion. We endeavor to contribute to the UN SDGs Goal 8, "Promote inclusive and sustainable economic

growth, employment and decent work for all" by focusing on and implementing activities in the areas of risk assessment for operations/machinery and chemical substances, and by the steady implementation of and follow-up for medical checks, as well as mental health measures.

Policies

Activities to ensure "occupational safety and health" are clearly stipulated in the Kao Responsible Care Policy. This is a policy to "Create a pleasant working environment and improve employees' health while eradicating occupational accidents, and reducing latent risks." Accordingly, when occupational accidents occur, we carefully investigate the accident or disaster, and identify and analyze the causes. The results of

the analysis are shared throughout the Kao Group, helping to prevent similar accidents from occurring again in the future, thereby protecting our employees while maintaining safe and stable operations.

→Kao Responsible Care Policy

http://www.kao.com/jp/en/corp_csr/eco_activities_05_00.html

Structures

The Kao Responsible Care Policy and the promotion structure and activities can be found on the following page.

→p.183 Responsible Care Activities

Education and promotion

Kao also implements education, drafting educational plans related to occupational safety and health for employees and temporary workers at all workplaces. We also ensure to conduct health and safety training for new hires or reassignments at the location of deployment. As part of these activities, we list up the necessary operations for special

education and ensure to implement the necessary training. We also publish an annual safety message from the President and a safety poster, to improve awareness of safety issues.

→p.155 Culture > Process safety and disaster prevention/Education and promotion

Mid- to long-term targets

Kao aims to become a company which meets top level global standards for health and safety by 2020.

We have set the target to achieve the complete elimination of deaths and serious lost time accidents, and the target for

lost time accident frequency rates (below 0.10), and we aim to completely eliminate 100% negligence accidents causing bodily injury for work-related traffic accidents by 2020, for both employees and subcontractors.

Occupational safety and health (DMA, LA6, LA10)

2016 targets and results

Global

We implemented activities from the two perspectives of “Eradication of Occupational Accidents” and “Creating a Pleasant Working Environment and Improving Employees’ Health.”

Specific activities to eradicate occupational accidents have focused on equipment and operational risk assessment for existing facilities. We have promoted improvements using near-miss incident proposals, risk assessment, incoming safety inspections in advance of operation of newly installed equipment, equipment safety measures, and the prevention of equipment-related incidents by ensuring thorough awareness of and compliance with rules. Activities have also focused on

measures to prevent slip and fall accidents involving stairs, etc., and work-related traffic accidents, etc.

In the area of creating a pleasant working environment and improving employees’ health, we have been strengthening management of the working environment, ensuring effective implementation and follow-up of health check-ups, undertaking health promotion activities, and implementing risk assessment for chemical substances.

In addition, at the Health and Safety Committee regularly held in each workplace, we report on activity plans as well as giving performance reports and disseminate these to employees.

2016 targets and results (Kao Group)

Category	Indicator	Scope	2014	2015	2016		
			Results	Results	Targets	Results	
Occupational accidents	Death and serious lost time accidents ^{*1} (persons)	Including both regular employees and temporary workers (Kao Group)	0	0	0	0	
		Breakdown	Japan	0	0	—	0
			Asia	0	0	—	0
			U.S. and Latin America	0	0	—	0
			Europe	0	0	—	0
		Subcontractors (Kao Group)	0	0	0	0	
		Breakdown	Japan	0	0	—	0
			Asia	0	0	—	0
			U.S. and Latin America	0	0	—	0
			Europe	0	0	—	0
	Lost time accidents frequency rate ^{*2}	Including both regular employees and temporary workers (Kao Group) ★	0.54	0.61	0.31 or less	0.67	
		Breakdown	Japan	0.27	0.30	—	0.47
			Asia	0.74	1.10	—	0.31
			U.S. and Latin America	5.46	3.61	—	3.20
Europe			5.88	2.53	—	4.12	
Ref: Japan Chemical Industry Association Including both regular employees and temporary workers		0.33	0.29	—	—		
Subcontractors (Kao Group) ★		0.45	0.82	0.34 or less	0.56		
Breakdown		Japan	0.23	0.40	—	0.65	
	Asia	0.48	1.12	—	0.13		
	U.S. and Latin America	0.00	0.00	—	0.00		
	Europe	5.32	4.30	—	5.81		
Ref: Japan Chemical Industry Association Subcontractors	0.43	0.50		—			

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

*2 Lost time accident frequency rate: Number of persons dead or seriously injured in occupational accidents per million hours worked (including only accidents involving at least one lost work day and also the loss of a part of the body or a bodily function)

Occupational safety and health (DMA, LA6, LA10)

2016 targets and results (Kao Group)

Category	Indicator	Scope	2014	2015	2016		
			Results	Results	Targets	Results	
Occupational accidents	Total accident frequency rate ^{*3}	Including both regular employees and temporary workers (Kao Group)	2.60	2.03	1.60 or less	1.96	
		Breakdown	Japan	1.69	1.63	—	1.93
			Asia	2.08	1.69	—	0.80
			U.S. and Latin America	11.70	7.23	—	4.79
			Europe	35.30	7.59	—	6.33
		Subcontractors (Kao Group)	2.36	2.18	0.88 or less	1.32	
		Breakdown	Japan	2.41	2.09	—	1.49
			Asia	2.07	2.23	—	0.77
			U.S. and Latin America	0.00	0.00	—	0.00
			Europe	7.97	4.30	—	7.75
	Severity rate ^{*4}	Including both regular employees and temporary workers (Kao Group)	0.01	0.01	—	0.02	
		Breakdown	Japan	0.01	0.01	—	0.01
			Asia	0.04	0.02	—	0.01
			U.S. and Latin America	0.11	0.09	—	0.10
Europe			0.10	0.02	—	0.06	
Ref: Japan Chemical Industry Association Including both regular employees and temporary workers		0.12	0.01	—	—		
Subcontractors (Kao Group)		0.02	0.01	—	0.03		
Breakdown		Japan	0.03	0.01	—	0.05	
		Asia	0.01	0.01	—	0.01	
		U.S. and Latin America	0.00	0.00	—	0.00	
	Europe	0.04	0.10	—	0.05		
Ref: Japan Chemical Industry Association Subcontractors	0.20	0.14	—	—			
Traffic accidents	100% negligence accidents causing bodily injury (no. of accidents)	Sales, logistics (Japan)	17	14	0	24	
	Accidents other than 0% negligence accidents per 100 vehicles ^{*5}		8.67	7.75	6.1 or less	7.10	

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

4 Severity rate: Number of lost days/total working hours 1,000

5 Accidents other than 0% negligence accidents per 100 vehicles: Number of traffic accidents other than 0% negligence / No. of vehicles in fleet 100

Targets for 2017

Global

We are working to prevent the occurrence of accidents and disasters, with the 2017 targets given as targets for the entire Kao Group. The targets for traffic accidents other than 0% negligence per 100 vehicles will also be set once we have a grasp of the current situation in Kao's sites outside Japan.

Targets for 2017 (Kao Group)

Category	Scope	Indicator	2017 targets
Occupational accidents	Regular employees and temporary workers	Death and serious lost time accidents* ¹ (persons)	0
		Lost time accident frequency rate* ²	0.26 or less
		Total accident frequency rate* ³	1.34 or less
	Subcontractors	Death and serious lost time accidents* ¹ (persons)	0
		Lost time accident frequency rate* ²	0.27 or less
		Total accident frequency rate* ³	0.81 or less
Traffic accidents	Sales, logistics	100% negligent accidents causing bodily injury (no. of accidents)	0
		Accidents other than 0% negligence per 100 vehicles* ⁴	—

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

*2 Lost time accident frequency rate: Number of persons dead or injured in occupational accidents including at least one lost work day and also a part of the body or bodily function per million hours worked

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

4 Accidents other than 0% negligence accidents per 100 vehicles: Number of traffic accidents other than 0% negligence / No. of vehicles in fleet 100

Collaboration with stakeholders

To ensure their safety, subcontractors also participate in safety and disaster prevention events at manufacturing and research premises and logistics bases. We also promote collaborative safety activities, sharing safety information such as occupational accident case studies and countermeasures

within the Kao Group with subcontractors on a monthly basis.

For the Kao Logistics Division, we also hold annual meetings with transportation contractors and have them collaborate in our activities to eliminate work-related traffic accidents.

Specific initiatives

Status of occupational accident occurrences

Global

In 2016, there were zero deaths from work-related accidents of both employees and temporary workers as well as at subcontractors.

In 2016, 156 employees were involved in accidents across the Kao Group, of whom 53 lost work days as a result (including temporary workers).

The most common types of accident were slip and fall accidents due to carelessness and lack of confirmation (54

employees), accidents involving reactionary action (18 employees), and accidents from getting caught in machines (16 employees). Measures are being promoted with an emphasis on slip and fall accidents, due to such accidents having the highest incidence rate.

As regards occupational accidents involving subcontractors, the number of persons affected in 2016 was 26 (of which 11 suffered injuries resulting in lost time).

Risk assessments of chemical substances

Global

As many kinds of chemical substances are handled at Kao manufacturing locations, the risk of environmental pollution is not negligible. With this in mind, we take measures to complete evaluations on the impacts on people and the

environment of existing facilities and to reduce these risks. In addition, we conduct a priori evaluations of impacts on people and the environment when extending and reconstructing facilities.

Expansion of no accidents with lost work days award system outside Japan

Global

The no accidents with lost work days award system which had previously been limited to plants in Japan, was expanded to include plants outside Japan, in order to improve safety awareness even further.

The first award for a plant outside Japan was given to Shanghai Kanebo Cosmetics Co., Ltd., in December 2016. This plant was awarded for the achievement of Stage 3 status.

Awards standards

Stage	Award standards
1	3 years
2	5 years or 5.4 million hours
3	7 years or 8.1 million hours
4	10 years or 12.2 million hours
5	15 years or 18.3 million hours
6	25 years or 30.0 million hours



Memorial trophy for no accidents with lost work days award



Stage 3 award for Shanghai Kanebo Cosmetics Co., Ltd.

Process safety and disaster prevention

(14, 50, DMA, LA6, LA10)

Kao's approach

Kao implements process safety and disaster prevention activities with the aim of ensuring the safety of employees and stable continuity of operations, stipulating matters relating to prevention of accidents, emergency response and strengthened security. Through these activities, we aim to completely eliminate accidents and logistics-related leakage incidents.

Social issues and Kao's approach

Kao has increasingly heightened process safety and disaster prevention needs in the current reality of successive accidents at the chemical plants of other companies, and many natural disasters, as it has large-scale plants.

Kao will endeavor to contribute to the UN SDGs Goal 11, "Make cities inclusive, safe, resilient and sustainable," in order

to ensure the safety of regional inhabitants, our employees, and others. This will be accomplished by ensuring rigorous process safety audits and drills and regular implementation of disaster prevention drills, alongside continuous consideration toward the mitigation of accidents as well as appropriate and timely responses when accidents do occur.

Policies

Activities to ensure "occupational safety and health" and "process safety and disaster prevention" are clearly stipulated in the Kao Responsible Care Policy. This is a policy to "Prevent fires, explosions and leakages involving chemical substances, with due attention to factors such as natural disasters and

strengthened security, and responses involving necessary facilities and regular drills to instill disaster preparedness while maintaining safe and stable operations." We are endeavoring to prevent accidents and disasters in accordance with this policy.

Structures

Our daily activities for occupational safety and health, process safety, and disaster prevention are conducted as part of the Responsible Care promotion system. In particular, we are building a framework to keep track of accidents or disasters when they occur, through our global emergency reporting network. In addition, when a large-scale disaster such as a major earthquake occurs, we will establish an Emergency Response Team Organization headed by the President. Together as a Group, our initial response places top priority on human life as we implement measures including our business continuity plan (BCP)*.

*Business Continuity Plan (BCP)

A plan for continuing key corporate activities through procedures to decide in advance which operations and functions should be continued, and which methods should be applied to continue activities, assuming various situations that cause the interruption and/or shutdown of business activities due to various events and the factors in their occurrence.

→p.183 Responsible Care Activities

Education and promotion

Kao implements process safety and disaster prevention education through various programs, to ensure that we deliver in perpetuity on our global commitment to *Yoki-Monozukuri*. By reproducing incidents such as technical glitches and hazardous situations at our *Monozukuri* Training Center, we can equip staff members at production sites while ensuring the necessary knowledge and skills are passed on. Promising leaders of the next generation receive eight months of training to learn about production technology and the spirit of *Yoki-Monozukuri* at Kao's Global Techno School in Wakayama Plant. Such training includes process safety and disaster prevention.

In addition, an annual disaster prevention message is posted, and an earthquake and disaster prevention handbook is published to improve disaster awareness. We are also endeavoring to ensure that the efficacy of past drills is not weakened by the passage of time, by designating a "Safety Day" on days when accidents occurred in the past.

→p.184 Responsible Care Activities > Education and promotion

→p.133 Culture > Human capital cultivation: helping every employee maximize their potential

Mid- to long-term targets

We actively strive toward the goal of complete elimination of on-site fires, explosions, leakages and logistics-related leakage accidents.

2016 targets and results

Global

In 2016, Kao implemented Change Management,* risk assessments of chemical facilities, regular inspections, and enhanced patrols, for "Maintenance of safe, stable operations," to eradicate process safety accidents as part of safety and disaster-prevention activities. In addition, detailed implementation specs and plans were also drafted for respective divisions with the targets of enriching disaster prevention drills and enhancing security.

* Change Management
Management activities anticipating and accommodating risks before changes are implemented, along with preventive measures for issues such as failure, defects, and accidents.

Below is an overview of fires, explosions, and leakage accidents in 2016.

Small-scale accidents: three cases

- A fire caused by the reaction of coolant adulteration during the deactivation treatment of waste reagent
 - A fire at a waste site involving waste cloth when paper cloth was used to clean up a combustible liquid
 - A fire caused by flying sparks coming in contact with flammable materials during construction work
- We are currently adjusting and consolidating our rules for dealing with waste reagents, operations processes and construction work.

Explosions, leakages (on-site), or logistics-related leakages

There were no explosions, leakages (on-site), or logistics-related leakages in 2016.

2016 targets and results

Category	Scope	Indicator	2015	2016	
			Results	Targets	Results
Accidents	Kao Group	Fires, explosions, leakages, etc. (no. of accidents)	6	0	3
		Logistics-related leakage incidents* (no. of accidents)	1	0	0

* Logistics-related leakage: Accidents involving leakage while products etc. are being transported

2017 targets

Global

Kao will continue activities toward its targets of completely eliminating on-site fires, explosion-related accidents, leakage-related accidents, and logistics-related leakage accidents in 2017.

2017 targets

Category	Scope	Indicator	2017 targets
Accidents	Kao Group	Fires, explosions, leakages, etc. (no. of accidents)	0
		Logistics-related leakage incidents (no. of accidents)	0

Collaboration with stakeholders

- Kao regularly implements joint drills with, for example, fire stations and local corporations, in order to keep any damage caused by accidents and disasters which occur to the bare minimum. We are endeavoring to improve the overall levels of our disaster prevention activities.
- We jointly implement drills in recognition of the possibility of terrorist attacks in cooperation with local police for our production sites overseas, on an as-needed basis.

Specific initiatives

Emergency response drills to prepare for large-scale disasters

Japan

Training in the use of the system for reporting the safety of Kao employees

In both March and September 2016, company-wide training was held over two days on inputting data into the employee safety confirmation system for use in confirming the safety of all Kao Group employees following a serious natural disaster. In both training instances, the successful data inputting rate was 100%. Given that a 100% successful inputting rate was also achieved in the September 2014 training exercise, this means that a 100% score has been achieved five times in a row. We will continue to implement this type of training in the future.

Earthquake scenario company-wide reporting and communication training

Recognizing the possibility of damage to the Kao Head Office from a major earthquake in the Tokyo metropolitan area, the Kao Group is consolidating its organizational units for disaster response in Eastern Japan and Western Japan.

In May 2016, we implemented drills premised on a major earthquake in the Nankai Trough, and in November we implemented drills premised on a major earthquake with its epicenter directly under the Tokyo metropolitan area.

During these drills, disaster sites transmitted timely information about human and property damage statuses by means of a meeting system utilizing satellite phones and Kao's internal disaster response bulletin board and website, and necessary responses were implemented based on the data from organizational units for disaster response. The content of drills is being reviewed on an ongoing basis in light of the lessons learned from past training drills.

→p. 180 Governance > Risk and crisis management

Safety and disaster prevention audits

Global

Up until last year, safety and disaster prevention audits were implemented once every two years at Kao chemical plants in the Asia region (five plants in five countries). However, in 2016, with the addition of a further three plants in China, we expanded the scope of activities to include eight plants in six countries.

We are implementing responses for matters indicated by audits in Thailand, Indonesia and China. Initiatives including the implementation of audits by having dispatched auditors from respective plants audit other plants are also being maintained so that we can improve the levels of safety and disaster prevention at each plant.

Strengthening safety and disaster prevention

Global

The SCM Division is working to identify latent risks and implement suitable measures in response, as well as continuing to promote earthquake response measures, as part of the strengthening of chemical equipment safety assessments.

In 2016, latent risks were again identified by means of chemical equipment safety assessments and we are continually implementing measures to prevent fires involving

low-flashpoint substances, measures to prevent dust explosions, measures to prevent spontaneous combustion, and measures to ensure the safety of equipment used for polymerization and exothermic reactions. With regard to earthquake response measures, we promoted the building of seismic resistance diagnostics and reinforcement, liquefaction prevention measures, and measures to strengthen protection against tsunamis.

High-pressure gas safety inspection, auditing and verification

Japan

The Wakayama Plant has been designated an Accredited Safety Inspection Executor* pursuant to the High Pressure Gas Safety Act. In 2016, a safety audit was implemented by the Safety Management Division in September and a safety inspection under the direction of the President, who also serves as head of safety management, was implemented in October. We were able to confirm that there were no issues with regards to process safety activities.

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

* Accredited Safety Inspection Executor

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



High-pressure gas safety verification at Wakayama Plant

Corporate governance (34, 38, 39, 40, 41, 42, 45, 51, 52, 53)

Basic approach

Kao makes concerted efforts to reinforce its corporate governance as a means of continuously increasing corporate value. 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 that allows it to swiftly respond to changes and realize efficient management that is sound, fair, and highly transparent. Kao views accomplishing such tasks as one of its most important management issues. Based on requests from stakeholders and social trends, Kao conducts reviews and implements the necessary measures and improvements, as needed, in an appropriate manner.

History of Initiatives for Enhancing Corporate Governance

2002	<ul style="list-style-type: none"> Introduced the Executive Officer system Introduced the Outside Director system
2003	<ul style="list-style-type: none"> Established the Committee for the Examination of the Nominees for the Chairman of the Board and the President and Chief Executive Officer and the Compensation Advisory Committee
2010	<ul style="list-style-type: none"> Established Standards for Independence of Outside Directors/ Outside Audit & Supervisory Board Members
2012	<ul style="list-style-type: none"> Added one Outside Director, for a total of three Reduced the number of Directors from 15 to 10 Shortened Directors' term of office to one year
2013	<ul style="list-style-type: none"> Added one Outside Audit & Supervisory Board Member, for a total of three
2014	<ul style="list-style-type: none"> Made the number of Inside Directors and Outside Directors the same Appointed an Independent Outside Director as chairman of the Board of Directors
2015	<ul style="list-style-type: none"> Commenced evaluation of the effectiveness of the Board of Directors
2016	<ul style="list-style-type: none"> Commenced evaluation of the effectiveness of the Audit & Supervisory Board Added one Inside Director, for a total of four

Corporate governance structure

Kao has chosen to be a company with an Audit & Supervisory Board. The Audit & Supervisory Board Members do not possess voting rights at meetings of the Board of Directors. Kao believes that this allows these members to objectively audit the decisions made by the Board of Directors and the business execution of individual Directors without being bound by past decisions and adopting an overly conservative approach.

To better ensure transparency and fairness in the processes for determining Director appointment and compensation, Kao has voluntarily established the Committee for the Examination of the Nominees for the Members of the Board of Directors, composed solely of Outside Directors and Outside Audit & Supervisory Board Members, and the Compensation Advisory Committee, made up of Outside Directors, Outside Audit & Supervisory Board Members, and Representative Directors.

Kao's Board of Directors maintains a high level of objectivity, with three of its seven members being Independent Outside Directors. At the same time, the Board of Directors is supported by the above organizations, which oversee auditing duties as well as compensation and nomination examinations, thereby realizing a high level of effectiveness. In these ways, Kao has in place a framework for supervising and auditing its management.

Corporate Governance Reference Chart

Corporate organization	Company with an Audit & Supervisory Board
Number of Directors (number of whom are Independent Outside Directors)	Seven (three)
Number of Audit & Supervisory Board Members (number of whom are Independent Outside Audit & Supervisory Board Members)	Five (three)
Directors' term of office	One year
Adoption of Executive Officer system	Yes
Institution for delegation of Board of Directors' authority	Management Committee, etc.
Institution for voluntary consultation with the Board of Directors	Committee for the Examination of the Nominees for the Members of the Board of Directors, Compensation Advisory Committee
Accounting Auditor	Deloitte Touche Tohmatsu LLC

Board of Directors

In order to appropriately carry out the formulation of business strategies and other measures as well as supervise specific business execution, Kao has secured a Board of Directors comprising diverse individuals with well-balanced knowledge, experience, and ability. Outside Directors are nominated with emphasis on diverse experience, their knowledge, and a high level of insight obtained from such experience that cannot be obtained from Inside Directors alone. Examples include global experience, experience in managing a company that provides products and services in a different field from Kao, and consulting or academic experience.

To promote sustainable growth and medium-to-long-term increases in corporate value, Kao deliberates from various perspectives, including evaluation of risks, and determines the medium-to-long-term direction of management toward business strategies. Furthermore, Kao supervises whether or not its business strategies are being executed appropriately in various ways through reports by the Inside Directors on the

status of progress of these strategies and issues preventing their achievement and response to such issues, as well as through evaluation by Outside Directors and Outside Audit & Supervisory Board Members from their diverse perspectives. Moreover, Kao draws sharp distinctions between risks through the establishment of internal control and risk control systems. In these ways, Kao has created an environment that allows for a more proactive style of management.

Also, Kao has introduced an Executive Officer system that places Executive Officers in charge of each division, thereby promoting the separation of supervisory functions and execution functions. Additionally, the Board of Directors largely delegates execution authority to the Management Committee, which is mainly composed of members with the position of Managing Executive Officer or higher. Through these means, Kao is working to accelerate decision making and business execution.

Evaluation of the effectiveness of the Board of Directors

On at least an annual basis, the effectiveness of the Board of Directors is evaluated by all of the members of the Board and Audit & Supervisory Board Members at a meeting of the Board of Directors, in order to make improvements aimed at enhancing the effectiveness of the Board of Directors. Based on the idea that the roles and responsibilities of the Board of Directors must be shared by the entire Board, Kao believes that it is effective for all members who participate in meetings of the Board of Directors, including Audit & Supervisory Board Members, to express their own opinions and evaluate those opinions by engaging in free and open discussions. Evaluation of the effectiveness of the Board of Directors is therefore conducted through self-assessment.

At a meeting of the Board of Directors held in June 2016, the remarks, which included the following viewpoints, were presented by each of the seven members of the Board and each of the five Audit & Supervisory Board Members.

- (1) Efforts to address issues pointed out in FY2015's evaluation of the effectiveness of the Board of Directors
- (2) Expectations of the Board of Directors in the Corporate Governance Code
 - (i) Discussion of the broad direction of corporate strategy
 - (ii) Establishing an environment where appropriate risk-taking by senior management is supported
 - (iii) Carrying out effective oversight of Directors and management from an independent and objective standpoint
 - (iv) Constructive communication with shareholders and investors
- (3) General operation of meetings of the Board of Directors (proceedings, agendas, reports, materials, discussions, etc.)
- (4) Future issues for the Board of Directors

Audit & Supervisory Board

For Outside Audit & Supervisory Board Members, Kao has appointed certified public accountants and a lawyer to its Audit & Supervisory Board, all of whom have a high level of expertise and abundant experience and knowledge regarding auditing. Supported by internal information gathering by the full-time Inside Audit & Supervisory Board Members, Audit & Supervisory Board Members are able to engage in objective and meaningful discussion and perform highly effective audits.

Audit & Supervisory Board Members hold regular meetings with the Representative Directors to exchange opinions and attend important meetings, such as meetings of the Board of Directors and the Management Committee. In addition to

meetings with the Audit & Supervisory Board Members of domestic Group companies, the Audit & Supervisory Board Members hold meetings with internal auditing divisions and the Accounting Auditor to exchange information as well as conduct interviews with each internal division and Kao's subsidiaries on a regular basis and additionally when necessary. Furthermore, at meetings of the Board of Directors, the Audit & Supervisory Board Members provide observations related to the legality and validity of Kao's business and accounting practices. They also offer a wide range of advice to Kao's management, including advice on strategic management direction.

Evaluation of the effectiveness of the Audit & Supervisory Board

At the Audit & Supervisory Board meeting held in February 2017, all Audit & Supervisory Board Members expressed their opinions on the activities of the Audit & Supervisory Board Members in FY2016. The attendees engaged in discussions based on those opinions and made their evaluations accordingly. In addition, reports were made to the Board of Directors on the following matters.

1. Efforts to address issues pointed out in last year's evaluation of auditing effectiveness

With respect to cooperation between Audit & Supervisory Board Members and the Accounting Auditor, Audit & Supervisory Board Members, and the Internal Auditing Division, the following steps were taken. Regarding the Accounting Auditor, while the overseeing independence and the appropriateness of audits, a report on the audit plan (annual) and reports on accounting audit results (with respect to each quarterly review and the year-end closing of accounts) were received and information and opinions exchanged, and the selection of the Accounting Auditor was also discussed. With respect to the Internal Auditing Division, the Audit & Supervisory Board Members have been working closely with the Division of Internal Audit and other internal auditing divisions, such as by exchanging information

and opinions on a regular basis and whenever necessary, and have therefore been working to improve the effectiveness and efficiency of audits.

2. Audit activities in FY2016

Audit activities of the Audit & Supervisory Board are functioning effectively, with audits conducted in accordance with the auditing standards prescribed by the Audit & Supervisory Board, and in accordance with Kao's audit policy, the allocation of duties, and other matters. In addition, proposals made at regularly held meetings to exchange opinions with Representative Directors were immediately implemented, confirming the effectiveness of the audits.

3. Future issues for audits by the Audit & Supervisory Board

Information is being shared closely between Audit & Supervisory Board Members of Kao and those of major subsidiaries in ways such as accompanied visits to subsidiaries. However, it is necessary to increase the effectiveness of the Kao Group's audits by promoting further cooperation with Audit & Supervisory Board Members of other subsidiaries. In addition, the effectiveness of audits should be improved by making effective use of staff who assist Audit & Supervisory Board Members in their duties.

Committee for the Examination of the Nominees for the Members of the Board of Directors and Compensation Advisory Committee

To ensure fairness and transparency in decisions regarding the appointment and compensation of Kao's members of the Board and Executive Officers, Kao has voluntarily established the Committee for the Examination of the Nominees for the Members of the Board of Directors and the Compensation Advisory Committee.

The Committee for the Examination of the Nominees for the Members of the Board of Directors comprises three Independent Outside Directors and three Independent Outside Audit & Supervisory Board Members. The Committee submits its opinions regarding Director nominees proposed by the Board of Directors. In addition to examining the appropriateness of Director nominees, it discusses size,

composition, and diversity of the Board of Directors as well as the qualities required for the President and Chief Executive Officer and members of the Board. The Committee also reports the results of these examinations and deliberations to the Board of Directors.

The Compensation Advisory Committee is composed of three Representative Directors, three Independent Outside Directors, and three Independent Outside Audit & Supervisory Board Members. The Committee offers its opinions on compensation proposals from Kao as well as on compensation systems and levels of members of the Board and Executive Officers.

Attending members for meetings of the Board of Directors, the Audit & Supervisory Board, and other committees

Classification	Name	Meeting of the Board of Directors	Audit & Supervisory Board Meeting	Committee for the Examination of the Nominees for the Members of the Board of Directors	Compensation Advisory Committee
Members of the Board	Michitaka Sawada	○			○
	Katsuhiko Yoshida	○			○
	Toshiaki Takeuchi	○			○
	Yoshihiro Hasebe	○			
	Sonosuke Kadonaga Outside / Independent	◎		◎	◎
	Masayuki Oku Outside / Independent	○		○	○
	Yukio Nagira Outside / Independent	○		○	○
Audit & Supervisory Board Members	Toshiharu Numata	○	◎		
	Katsuya Fujii	○	○		
	Yumiko Waseda Outside / Independent	○	○	○	○
	Toraki Inoue Outside / Independent	○	○	○	○
	Hideki Amano Outside / Independent	○	○	○	○

◎ indicates chairman of the Board or specified committee ○ indicates attending member

Independent Outside Directors and Independent Outside Audit & Supervisory Board Members

Kao uses a structure with the appropriate number of Independent Outside Directors and Independent Outside Audit & Supervisory Board Members who satisfy the “Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation” (hereinafter, the “Standards for Independence”) to provide a check on the status of deliberations of the Board of Directors from an objective perspective independent of Kao’s management so that its judgment is not biased toward the logic of persons inside the Company. Three of Kao’s seven Directors are Outside Directors and three of its five Audit & Supervisory Board Members are outside members. All of these members fulfill the Standards for Independence. Under its current structure, Kao has appointed an Independent Outside Director as Chairman of the

Board of Directors as part of a policy to further enhance the Board’s neutrality and independence. To promote discussions from diverse perspectives, Independent Outside Directors and Outside Audit & Supervisory Board Members hold meetings exclusively for independent outside members on their own initiative at intermissions of meetings of the Board of Directors or by setting up separate opportunities to exchange information and share awareness of issues related to Kao’s management and the activities of the Board of Directors, the development of future senior management, and other matters.

→For details, refer to Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation http://www.kao.com/jp/en/corp_imgs/corp_info/governance_002.pdf

Dialogue with shareholders

In order to improve its corporate value, Kao considers it important to communicate with shareholders and other stakeholders, thereby gaining better understanding of mutual views and positions, and taking appropriate measures based on this understanding. Kao will develop a structure to promote constructive communication with shareholders, and create

opportunities to communicate with individual shareholders and domestic and foreign institutional investors. In communication with shareholders, the members of management participate to the extent possible in order to reflect the opinions of the shareholders and other matters in management appropriately.

Compensation system for Directors, Audit & Supervisory Board Members, and Executive Officers

Kao's compensation system for members of the Board, Audit & Supervisory Board Members, and Executive Officers is aimed at (1) securing and retaining diverse and excellent personnel to establish and improve competitive advantages; (2) promoting prioritized measures for lasting increases in corporate value; and (3) sharing interests in common with shareholders.

Remuneration of members of the Board, other than Outside Directors, and Executive Officers consists of (i) a base salary, (ii) a bonus as short-term incentive compensation, and (iii) a performance-based share incentive plan as long-term incentive compensation, and is designed to provide an impetus for continuing annual improvement in business results and medium-to-long-term growth. Linkage of remuneration to business results increases with rank and takes into account the responsibilities of each position and individual performance. An overview of the components of remuneration is as follows.

(i) Base salary

A base salary is paid as fixed monthly remuneration in an amount determined in accordance with duties as a member of the Board or Executive Officer and rank.

(ii) Bonus as short-term incentive compensation

When the full bonus payment rate is paid, the bonus is set at 50% of the base salary for the President and Chief Executive Officer, 40% of the base salary for the Chairman of the Board of Directors and Executive Officers with titles other than the Chief Executive Officer, and 30% of the base salary for other Executive Officers. The bonus payment rate is set within a range of 0% to 200%, depending on the degree of achievement of targets for net sales and income (gross profit less selling, general and administrative expenses), the degree of their improvement from the previous year, and the degree of achievement of the target for Economic Value Added (EVA^{®*}), Kao's main management indicator, which takes into account capital cost.

*1 EVA[®] is a registered trademark of Stern Stewart & Co.

(iii) Performance-based share incentive plan as long-term incentive compensation

Within a four-year target period from FY2017 to FY2020 (hereinafter, the target period), the period covered by the current mid-term plan, Kao shares, etc., are delivered to the members of the Board excluding Outside Directors and Executive Officers in accordance with the degree of achievement of targets adopted under the mid-term plan, etc. This performance-based share incentive plan comprises two parts: a performance-based part in which Kao shares, etc., are delivered in accordance with the degree of achievement of targets adopted under the mid-term plan, etc., and a fixed part in which a certain number of Kao shares, etc., are delivered annually. The purpose of the performance-based part of the system is to provide an impetus for achieving the targets of Kao's mid-term plan as well as to increase the link between performance and compensation over the medium to long term. The purpose of the fixed part of the system is to strengthen shared interest with Kao's shareholders by promoting the holding of shares by the members of the Board excluding Outside Directors and Executive Officers. The performance-based part accounts for 70% of shares delivered, with the fixed part accounting for 30%. When the performance-based coefficient for the performance-based part of the system is at 100%, the yearly share remuneration amount is set at approximately 30% to 40% of the base salary.

① Performance-based part

Based on a point system where points are determined beforehand by rank (hereinafter, rank points), single-year points are granted to the members of the Board excluding Outside Directors and Executive Officers every fiscal year and are calculated using the formula below. Performance-based points are calculated by multiplying the single-year points accumulated within the target period by the performance-based coefficient, which reflects the degree of achievement of the mid-term plan's targets, etc. Based on these points, shares, etc., will be delivered to the members of the Board excluding Outside Directors and Executive Officers upon the conclusion of the mid-term plan. The performance-based coefficient fluctuates within a range of 0% to 200% in accordance with the degree of achievement of targets, etc., for the CAGR^{*2} of like-for-like^{*3} sales as well as consolidated operating margin, etc.

*2 CAGR: Compound annual growth rate

*3 Like-for-like growth excludes the effect of currency translation.

Formula for calculating single-year points	Rank points × 70%
Formula for calculating performance-based points	Cumulative single-year points over the target period × performance-based coefficient

② Fixed part

Fixed points are granted to the members of the Board excluding Outside Directors and Executive Officers every fiscal year. These points are based on rank points and calculated using the formula below. Shares, etc., are delivered to the members of the Board excluding Outside Directors and Executive Officers in the year following the corresponding fiscal year in accordance with the number of fixed points. Furthermore, shares acquired in the fixed part of the performance-based share incentive plan are held continuously until the conclusion of the target period.

Formula for calculating fixed points	Rank points × 30%
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Compensation for Outside Directors, who hold a position independent from Kao's business execution function, is limited to a fixed monthly salary.

The compensation system and compensation standards for members of the Board and Executive Officers are examined by the Compensation Advisory Committee and determined by the Board of Directors. The Compensation Advisory Committee comprises the Chairman of the Board of Directors as well as all of Kao's Representative Directors. In addition, the Committee includes all of Kao's Outside Directors and Outside Audit & Supervisory Board Members, from the perspective of ensuring objectivity and transparency in the decision-making process. As such, over half of the Committee's members are independent.

Compensation for Audit & Supervisory Board Members consists of fixed monthly remuneration. Compensation standards are determined at meetings of the Audit & Supervisory Board.

Compensation standards for the members of the Board, Executive Officers, and Audit & Supervisory Board Members are determined each year after ascertaining standards at other major manufacturers of a similar size, industry category, and business type to Kao using officer compensation survey data from an external survey organization.

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

Compensation paid to Members of the Board and Audit & Supervisory Board Members in FY2016

Members of the Board	Seven, 414 million yen (Outside Directors: three, 52 million yen)
Audit & Supervisory Board Members	Six, 76 million yen (Outside Members: four, 28 million yen)

Notes:

- *1. The above numbers of Directors/Audit & Supervisory Board Members include one Outside Audit & Supervisory Board Member who resigned at the conclusion of the 110th Annual General Meeting of Shareholders held on March 25, 2016.
- *2. The aggregate amount of remuneration, etc., paid to members of the Board includes the following amounts:
- (1) The amount paid as the bonuses for FY2016 to members of the Board
112 million yen to four members of the Board
 - (2) The amount of remuneration, etc., as stock acquisition rights allotted as stock options based on the resolution of the meeting of the Board of Directors held on April 27, 2016
68 million yen to four members of the Board
- *3. Maximum aggregate amounts of remuneration, etc., are as follows:
- (1) Maximum aggregate amounts of remuneration, etc., to be paid to members of the Board
 - (i) An annual amount of 630 million yen (resolved at the 101st Annual General Meeting of Shareholders held on June 28, 2007)
This amount includes an annual amount of 100 million yen for Outside Directors (resolved at the 110th Annual General Meeting of Shareholders held on March 25, 2016), and does not include remuneration paid to members of the Board who also serve as employees of Kao, for their services as employees.
 - (ii) An annual amount of 200 million yen (resolved at the 100th Annual General Meeting of Shareholders held on June 29, 2006)
This amount was approved as the maximum amount of stock acquisition rights to be allotted as stock options, apart from the amount in (i) above.
 - (2) The maximum aggregate amount of remuneration, etc., to be paid to Audit & Supervisory Board Members
An annual amount of 85 million yen (resolved at the 78th Annual General Meeting of Shareholders held on June 29, 1984)

The aggregate amount of remuneration of members of the Board

Michitaka Sawada (Member of the Board)	The aggregate amount of remuneration: 156 million yen (base salary of 82 million yen, bonus of 52 million yen, stock option compensation of 23 million yen)
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Note:

Only director remuneration amounts totaling over 100 million yen are listed.

Kao's strengths and challenges from the perspective of an Outside Audit & Supervisory Board Member



Yumiko Waseda

Independent Outside Audit & Supervisory Board Member

While Audit & Supervisory Board Members do not have voting rights at meetings of the Board of Directors, as participants in these meetings, we provide opinions based on our duties as Audit & Supervisory Board Members. Going beyond that, we also offer opinions from our perspective as law and accounting specialists, and I feel that the Board of Directors places great value on such opinions. In addition, due to the equal number of inside and outside members, including Audit & Supervisory Board Members, who participate in meetings of the Board of Directors (members of the Board: four inside, three outside; Audit & Supervisory Board Members: two inside, three outside), as well as the fact that the chairman of the Board of Directors is an Outside Director, outside members are able to actively make proposals at meetings of the Board of Directors, and the company takes the opinions of the outside members very seriously. Also, meetings are often held between only outside members, where we candidly exchange opinions, and recommendations are made to the company based on the

results of these meetings.

One of Kao's current strengths is that its corporate philosophy, the Kao Way, has been instilled in each employee, allowing Kao to realize rational and swift decision making and giving it an exceptional ability to gather together group-wide strengths. However, I believe Kao faces a challenge in incorporating diversity into this strength, as it must employ a well-balanced approach so as not to inhibit its ability to promptly gather group-wide strengths. One aspect of diversity is promoting an active role for female employees. While I am currently the only woman active on the Board of Directors, two of Kao's executive officers are female, and Kao is nurturing female employees who could likely become their successors. Accordingly, I believe that Kao is making solid efforts to promote the active role of female employees. I have high hopes that Kao will become a company where an even more diverse group of human capital, including women, can play an active role.

Information disclosure (27, DMA)

Kao's approach

In line with our aim of being a company that is trusted by and has the support of society, Kao discloses information in a timely, accurate and fair manner to shareholders, investors and other stakeholders. Besides the prompt disclosure of information required by the Securities Listing Regulations of the Tokyo Stock Exchange in accordance with the requirements of the Companies Act, the Financial Instruments and Exchange Act, other relevant laws and regulations and stock exchange rules, Kao also proactively discloses other information relating to the Kao Group that it believes will be useful to society.

Policies

As for information disclosure, Kao's basic policy is to disclose information in a timely, accurate and fair manner in accordance with its Disclosure Guidelines. Kao discloses information which it is obligated to release publicly, as well as information useful to shareholders and investors, in English and Japanese, on the online Timely Disclosure Network (TDnet)* based on the Securities Listing Regulations of the Tokyo Stock Exchange (TSE). This information is also simultaneously posted in the Investor Relations section of Kao's website.

Kao will continue to seek improvement of IR activities

through reinforcing strategic information disclosures, such as enhanced delivery of messages from top management and intensified dialogue with institutional investors.

* TDnet (Timely Disclosure Network)

A service to distribute information on listed companies on a real time basis; operated by the Tokyo Stock Exchange

→For details, refer to Investor Relations

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

→For details, refer to Disclosure Guidelines

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

Structures

The Company has established a system which the secretariat of Disclosure Committee consolidates the management of material corporate information including all the decisions, occurrence of material facts and earnings information of the Company and of the Company's subsidiaries. The Disclosure Committee reviews whether certain material corporate information should be disclosed pursuant to the Securities Listing Regulations of TSE in consultation with relevant divisions such as Accounting & Finance, Legal, Public Relations, R&D and Production. If necessary, the Committee

decides the contents, time and methods of disclosure after getting an approval of the President and CEO, or if absent, one of the other Representative Directors or Corporate Information Handling Officer registered at TSE.

In principle, Representative Director or its assignees discloses information by TDnet, and press conference and posting of news release if necessary, in accordance with the decision by the Committee. The information registered at TDnet will also be promptly posted on the Kao website. The Public Relations manages the disclosed information.

Education and promotion

In 2016, Kao held educational awareness-raising seminars about insider trading regulations, with instructors provided by the Compliance Learning Center, an organization associated with the Japan Exchange Group. The number of seminar participants was as follows:

- Seminar for company officers: 1 seminar, with 32 participants
- Seminar for company employees: 6 seminars, with 236 participants

Information disclosure (27, DMA)

2016 results

1. Timely, accurate and fair disclosure

- Kao implemented disclosure using TDnet and by posting information on the Investor Relations section of the Kao website, as well as by holding press conferences and mailing out information where necessary.
- Kao submitted Corporate Governance Reports (detailing implementation status of the principles of the Corporate Governance Code formulated by the Tokyo Stock Exchange) five times.

2. Strengthening dialogue with shareholders and investors

- Business briefings and facility tours: held 8 times
- Discussion meetings regarding the Environmental, Social and corporate Governance (ESG) criteria: held 6 times
- Governance roadshow (Europe and Asia)

- Financial results briefings (on the same day as half-year and full-year financial results are announced)
- IR roadshow in the Americas, Europe and Asia
- Small meetings with the President: twice a year
- One-on-one meetings: about 340 interviews with analysts and institutional investors inside and outside of Japan
- Disclosure of information on corporate website
- Reports to shareholders (half-year and full-year) (Japanese version)
- Annual Report (English version), and disclosure of the Japanese version on the company's website
- IR information dissemination through RSS feed distribution*

* RSS feed distribution
A distribution system that automatically provides subscribers with a newsfeed every time a website is updated

Specific initiatives

Publicizing shareholder meetings and facilitating the exercise of voting rights

Japan

To provide shareholders with sufficient time to examine agenda items, Kao sends a convocation notice about one month prior to the Annual General Meeting of Shareholders (AGM) every year. Furthermore, Kao posts the convocation notice on the online TDnet and on the corporate website ahead of sending the convocation notice, and to provide prompt and fair information disclosure to foreign shareholders, who hold about half of its shares, a summarized English translation of the convocation notice is provided.

To encourage the exercise of voting rights, Kao uses electronic means for voting, including the Internet and an electronic voting platform operated by ICJ, Inc.

Kao works to enhance the contents of its convocation notices for the AGM by conducting regular revisions to proactively incorporate information considered conducive to appropriate judgments by shareholders, in addition to items required by law. Also, Kao provides institutional investors and others with explanations as necessary.

At the AGM, Kao provides shareholders with easy-to-understand explanations of the summary of the business report, major issues and the medium- to long-term outlook using projected images and a thorough question-and-answer session. Kao also provides opportunities for shareholders who desire to make the acquaintance of Directors and Executive Officers to do so after the close of the AGM.

After the conclusion of the AGM, Kao also posts presentation materials used at the meeting and a summary of voting resolutions from the meeting in both Japanese and English on its website.

The 111th Annual General Meeting of Shareholders
(Held in March 2017)

Total number of shareholders who attended: 2,057

Promoting dialogue through business briefings and facility tours

Japan

In 2016, Kao conducted tours of the Kao Museum, the Kawasaki Plant and the Wakayama Eco-Lab Museum for shareholders over seven days in June, with a total of about 445 people attending.

After each approximately one-hour tour, Executive Officers explained Kao's performance, initiatives in 2016 and the Kao Group Mid-term Plan 2020 (K20) and shareholder returns, and responded to questions from shareholders.

We received many favorable comments from participants

in the tours, including, "I was impressed to learn that Kao does more than just make and sell products. Kao is also conducting environmental activities to help protect the global environment," and "I now have a clear understanding of Kao's corporate vision and business strategy."

We continue to incorporate such feedback as we plan and implement future events to bring higher satisfaction to shareholders.

Promoting dialogue with institutional investors

Global

Promoting dialogue with a long-term view

Through constructive dialogue with a clear purpose based on a long-term view and in accordance with the Corporate Governance Code, Kao implements accurate, fair disclosure with respect to shareholders, analysts and institutional investors. Where appropriate, feedback from external sources is provided to our management team. Through these kinds of activities, we aim to realize a continuing enhancement of corporate value.

In 2016, meetings were held with several institutional investors at which ideas were exchanged regarding the company's corporate governance and other aspects of Environmental, Social and corporate Governance criteria (ESG criteria), with the participants on Kao's side including not only Investor Relations staff (who function as the main contact persons for analysts and institutional investors) but also representatives of the Legal Department and the Sustainability Department. Kao views these meetings as providing an important opportunity for the departments responsible for ESG to hear institutional investors' views directly. We endeavor to use the ideas obtained at these meetings as a basis for further improvements to our disclosure activities and for a further strengthening of dialog.

Implementation of a presentation regarding the Kao Group Mid-term Plan 2020 (K20)

In December 2016, Kao held a presentation for analysts, institutional investors and journalists regarding K20. The President explained the thinking behind K20, after which there was a lively Q&A session. The response from participants was very positive, with comments such as "It is clear that Kao has high ideals and confidence in its ability to achieve growth," "I was impressed to see that Kao is aiming to make radical changes and strive for a further improvement in earnings

performance," "I could sense that Kao is seriously committed to realizing growth in overseas markets," and "The high growth targets that Kao has set demonstrate Kao's commitment, and should also help to promote change within the company," etc. Both the presentation and the Q&A text were disclosed on the website in Japanese and English, ensuring effective disclosure to overseas investors.

By sharing Kao's targets with analysts and institutional investors, and through dialogue with them, the IR Group aims to promote activities that will contribute to the enhancement of corporate value in the future.

→Kao Group Mid-term Plan 2020 (K20)

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

Implementation of the exchange of ideas focusing on governance-related themes

In May 2016, the Legal Department's manager responsible for governance-related matters visited institutional investors in Europe, to exchange ideas regarding Kao's corporate governance. In November 2016, focusing on similar themes, members of the Legal Department and Investor Relations visited investors in Singapore and Hong Kong. By explaining Kao's approach to corporate governance and its governance systems in a face-to-face environment, these visits helped to give investors a more in-depth understanding of the relevant issues, while also helping Kao to understand investors' needs. Although up until now there has been relatively little dialog in the Asia region focusing specifically on governance, Kao is considering implementing this kind of dialogue on an ongoing basis in the future. We will continue to engage in dialogue with institutional investors, both in Japan and outside Japan, with the aim of encouraging them to view Kao's potential with a medium- and long-term perspective.

Information security (14, 58, DMA)

Kao's approach

The Kao Group has an Information Security Committee, the purpose of which is to protect information assets including confidential information (trade secrets) and personal information, as well as IT hardware, software and data. Based on the committee discussions, Kao has established an administrative system that aims to set internal rules and to see that internal controls are thoroughly implemented and rules are observed. Kao also carries out educational activities for employees.

Social issues and Kao's approach

By making active use of confidential information and personal information, companies are able to implement their business operations in such a way as to maximize their unique strengths. At the same time, information technology is used extensively across a wide range of business activities, from order processing and placement to sales booking, budget processes, R&D and production. It is therefore very important for companies to adopt measures to counter the threat of information leaks or attacks on their IT systems, whether originating from inside or outside the company.

To prevent the unauthorized disclosure of information by company personnel, we strive to implement the Kao Way,

our corporate philosophy, and endeavor to ensure that all employees are familiar with the Kao Business Conduct Guidelines (BCG), which constitute our code of conduct. This is supported by the dissemination of messages from senior management, effective monitoring, and awareness-raising activities (including strengthening awareness of the penalties for violations of the Unfair Competition Prevention Act). With regard to external criminal activity, we have been implementing technical and human-focused measures to guard against targeted e-mail attacks that have been the cause of large-scale leaks of personal information, and that have caused serious problems for society in recent years.

Policies

We have formulated our Information Security Policy, Guidelines on Handling Trade Secrets, Guidelines on Handling Personal Information and IT Security Guidelines to ensure that business activities are carried out in accordance with the relevant laws and with the guidelines promulgated by government ministries, agencies and committees.

With regard to the protection of confidential information, to ensure that confidential information is able to receive full legal protection as trade secrets, we have drawn up relevant rules in accordance with the guidelines and handbooks, etc. issued by the Japanese Ministry of Economy, Trade and Industry (METI).

We also implement management in accordance with these rules, and perform self-checks on a regular basis.

We strictly protect personal information in accordance with the guidelines produced by METI. When transactions involve the outsourcing of operations, including the handling of personal information, to other companies, we exercise thorough oversight of such companies by means of detailed execution of contracts and auditing procedures. Pursuant to the Japanese Ministry of Health, Labour and Welfare's guidelines, the personal information of employees is also managed properly.

Structures

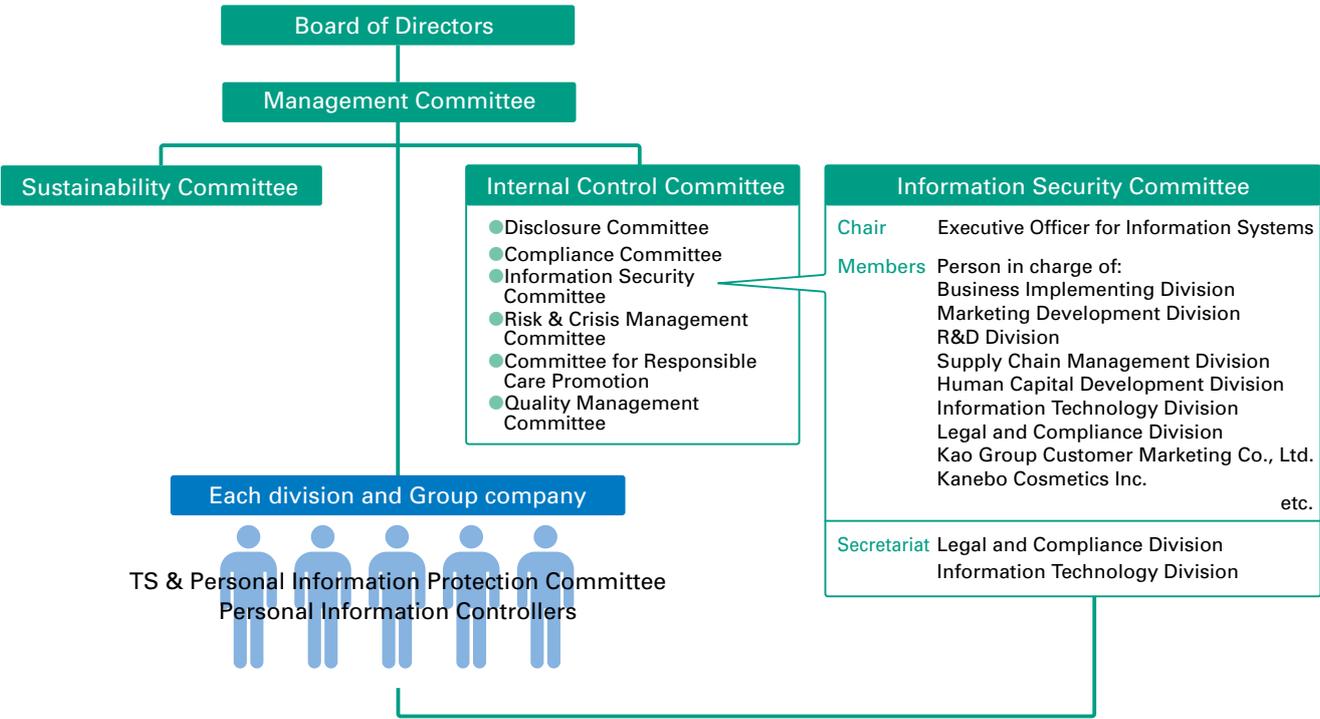
The “Protection of Confidential Information Handbook” published by METI in February 2016 specifies that management should take the lead in participating in internal system establishment, and that measures should be formulated from a variety of different perspectives, including those of intellectual property management, human resources and labor affairs, information security and compliance with laws and regulations. The handbook also emphasizes that confidential information exists in all departments within any given company.

We have appointed senior managers to serve as Chair and Vice-Chair of the Information Security Committee, and both the committee members and the staff of the committee’s secretariat are drawn from many different divisions, including

Human Capital Development, Information Technology, Marketing, Intellectual Property Management, Production and Engineering and Legal and Compliance. In this way, we benefit from a wide range of different perspectives when formulating internal rules, putting management systems in place, and implementing awareness-raising activities.

In addition, staff members from each division are selected to serve as members of the Trade Secret (TS) & Personal Information Protection Committee, and each division has its own Personal Information Controllers. We continue to implement confidential information and personal information protection activities using the PDCA (Plan–Do–Check–Act) cycle, focusing in particular on awareness-raising activities and self-checks.

Information security structure



Education and promotion

For the most part, in-house education in this area is implemented at the division level. To ensure thorough promotion of the protection of confidential information and personal information, we arrange lectures given by external instructors for the members of the TS & Personal Information Protection Committee and for TS & Personal Information Supervisors, and awareness-raising activities are held to familiarize our staff with the latest trends. Company-wide

warnings and awareness-raising messages for all staff are sent via the portal site on the company intranet.

To evaluate the effectiveness of in-house education, checks are performed using self-checks. On the basis of the results obtained from these self-checks, improvement targets are set and improvement activities implemented with respect to any problems that are identified.

Mid- to long-term targets

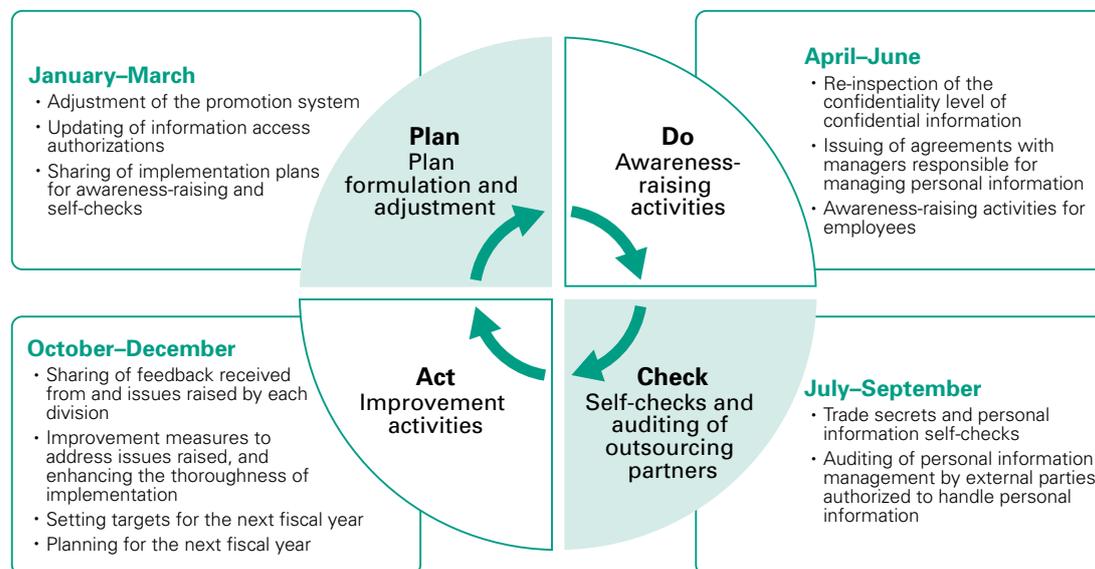
Our information security management cycle operates on a quarterly cycle as follows: First Quarter: Plan formulation and adjustment; Second Quarter: Awareness-raising activities; Third Quarter: Self-checks and auditing of outsourcing partners; Fourth Quarter: Improvement activities.

In the Kao Group in Japan, we have been striving for an overall enhancement of information security performance through the implementation of information security awareness-raising activities and the standardization of self-check activities,

promoting a fundamental transformation aimed at preventing information security incidents and other incidents relating to confidential information or personal information.

With respect to Kao Group companies outside Japan, we provide support so that rules and systems can be adopted and such rules and systems comply with the requirements of local laws and regulations, aiming for a worldwide enhancement of overall information security performance.

PDCA cycle for information security activities



2016 results

The following activities were implemented in 2016 with the aim of standardizing the information security management cycle.

First Quarter: Plan formulation and adjustment

- Awareness-raising regarding the revision of the Guidelines on Handling Personal Information
- Clarification of key issues relating to major corporate risks in relation to personal information leaks
- Launch of project in response to the EU's General Data Protection Regulation (GDPR)

Second Quarter: Awareness-raising activities

- Implementation of training in responding to targeted e-mail attacks

Third Quarter: Self-checks and auditing of outsourcing partners

- Implementation of assessment in accordance with METI's Cybersecurity Management Guidelines
- Implementation of "self-patrols" of management status
- Implementation of paper audits of outsourcing partners

Fourth Quarter: Improvement activities

- Holding of the 23rd TS & Personal Information Protection Promotion Meeting
- Standardization of employee awareness-raising materials

Collaboration with stakeholders

The Japan Chemical Industry Association (JCIA), an industry body whose members include chemical product manufacturers, has established the Security Information Management Subcommittee, which aims to enhance the overall level of information security in the industry by sharing the latest information provided by the administrative authorities and through the exchange of information and sharing of know-how between subcommittee members. Through our participation in the Security Information Management Subcommittee, we contribute to related industry activities.

We also participate in two information-sharing networks:

the Initiative for Cyber Security Information sharing Partnership of Japan (J-CSIP), which is directed by the Information-technology Promotion Agency, Japan (IPA), and the National Police Agency's Cyber Intelligence Information Sharing Network. By sharing information about targeted e-mail attacks through these networks, the participating companies are able to help each other develop countermeasures. In reporting information about information security incidents, we are contributing to the improvement of cyber security measures throughout the industry.

Specific initiatives

First Quarter: Plan formulation and adjustment

Revision of the Guidelines on Handling Personal Information

Japan

With the introduction of the Individual Number (“My Number”) System in Japan, we revised our Guidelines on Handling Personal Information to ensure conformity with the requirements of the Social Benefits and Tax Number Act, with implementation of the revised guidelines commencing from January 1, 2016.

The revisions involve the adding of additional content to

Chapter 4 (“Individual Number Handling”) of the guidelines, and an appendix detailing the legally mandated operations relating to the Individual Number System. We thus now have clear internal rules regarding obtaining, use, provision, custody and disposal of My Numbers, as well as related security control measures.

First Quarter: Plan formulation and adjustment

Preventing and handling of personal information leaks

Japan

With the Risk and Crisis Management Committee playing a key role, we identify risks that have the potential to seriously affect the company, and formulate measures to avoid and respond to these risks. Personal information leaks are viewed as a particularly serious type of risk, and we are formulating measures in response to this risk, with the Information

Security Committee secretariat playing a central role in this process. From 2017, we are considering implementing personal information leak response training, as well as measures to strengthen personal information management by the subcontractors of outsourcing partners.

First Quarter: Plan formulation and adjustment

Responding to the GDPR

Global

Implementation of the European Union’s General Data Protection Regulation (GDPR) is scheduled to begin on May 25, 2018. The GDPR regulates the handling and transfer of personal data, and is characterized by strict rules and penalties.

In response to the introduction of the GDPR, we are implementing a project in which Kao Group companies in Europe will play a central role. The project timetable is as

follows: Phase 1: Discovery (clarification of the current situation and plan formulation, which is to be implemented over the period from now until Q1 of 2017); Phase 2: Implementation (establishment of response methods within 2017); Phase 3: Testing/Education (implementation of testing and in-house education and training, which is to take place in Q1 and Q2 of 2018).

Second Quarter: Awareness-raising activities

Training to cope with targeted e-mail attacks

Japan

Continuing from 2015, training in responding to targeted e-mail attacks was implemented once again in 2016, with 16,719 Kao employees taking part. In April 2016, employees were alerted to the danger of possible targeted e-mail attacks via the Kao internal portal site KOMPASS. Then in May, e-mails with attachments titled “Monthly Meeting (April 2016) Minutes”

and “April 2016 Medical Expenses Notification” were sent to employees to check whether employees would open the attachments.

We have now implemented training in responding to targeted e-mail attacks on two occasions, and intend to implement further training in the future.

Third Quarter: Self-checks and auditing of outsourcing partners

Cybersecurity Management Guidelines

Japan

Our Information Security Committee implemented an evaluation with respect to the 10 Important Items noted in METI’s Cybersecurity Management Guidelines, to verify whether our approach to cybersecurity is in conformity with the approach espoused by the Japanese government, the extent to which we are implementing cybersecurity effectively, and whether there are any issues that need to be addressed.

The Cybersecurity Management Guidelines were formulated by METI in collaboration with the Information-technology Promotion Agency, Japan (IPA). The evaluation results indicated that we had achieved superior performance with respect to six of the 10 Important Items, and adequate performance with respect to four of them.

Third Quarter:
Self-checks and auditing of
outsourcing partners

Implementing division “self-patrols”

Japan

Every year, division members for protection of trade secrets (TS) and supervisors who handle personal information conduct self-checks to examine the conditions under which trade secrets and personal information are managed within their own divisions.

As part of the standardization of the information security management cycle, starting from 2016, division “self-patrols” are being implemented in July, in the third quarter.

On the basis of the results, the following improvement targets for 2017 were set: thorough revision of division confidential information lists to clarify which information constitutes trade secrets that need to be carefully safeguarded, and thorough recording of the personal information handling management record to ensure that the personal information on record is kept up to date.

Third Quarter:
Self-checks and auditing of
outsourcing partners

Re-confirming the information technology systems for personal information management

Japan

Personal information obtained by Kao Group companies in Japan is managed in information systems operated by each company and by outsourcing contractors outside the Kao Group. As there were cases of large-scale leaks of personal information at other companies, we have reinvestigated how personal information is being managed in the information

systems of Kao Group companies and outsourcing contractors, and are taking steps to maintain and improve the security level of those information systems.

In 2016, we verified the status of personal information management by conducting paper audits of 164 outsourcing partners.

Fourth Quarter:
Improvement activities

The 23rd TS & Personal Information Protection Promotion Meeting

Japan

The Kao Group in Japan holds regular meetings for the purpose of protecting TS and personal information, which are attended by division committee members responsible for protection of TS and supervisors who handle personal information.

At the 23rd TS & Personal Information Protection Promotion Meeting held in October 2016 (which had 195 participants), an

attorney invited to attend the meeting as a guest speaker gave a talk on the topic of “confidential information protection and management,” explaining the key aspects of legal protection for trade secrets and key points regarding confidential information management using specific examples from other companies.

Fourth Quarter:
Improvement activities

Standardization of employee awareness-raising materials

Japan

In 2016, we began work on the standardization of information security employee awareness-raising materials used at Kao Corporation, Kanebo Cosmetics Inc., Kao Group Customer Marketing Co., Ltd., Kao Customer Marketing Co., Ltd., and Kanebo Cosmetics Sales Inc. The aim was to explain the points covered by Kao’s information security-related rules: the Guidelines on Handling Trade Secrets, Guidelines on Handling Personal Information, and IT Security Guidelines in an easy-to-

understand way, so as to deepen employees’ understanding of these rules. The basic concept is to have two versions of the awareness-raising materials: a standard version that is shared by all Group companies, and individual companies’ existing expanded versions. The intention is that the expanded versions will include case studies of rule compliance in regard to individual sales companies’ respective retail outlet activities, etc.

IP protection and utilization (DMA)

Kao's approach

At Kao, we are endeavoring to protect and utilize the rights of Research and Development (R&D) outcomes through cooperation between our Intellectual Property Division and respective research institutes to realize "Business contributions through intellectual property (IP)."

Social issues and Kao's approach

Optimized IP-related activities integrated between Kao Corporation and its Group companies both in and outside Japan are required with the increasing globalization of R&D. We are enhancing our ties in the IP field to cater to such

demands.

In addition, we are strengthening our support functions for technical contracting to secure acceleration in the pace of open innovation.

Policies

Kao conducts its business activities while protecting its industrial property rights, such as patent and design rights for R&D outcomes.

It promotes strategic applications in a broad range of fields, led by the Intellectual Property Division, for intellectual property rights, which are indicators of key company values, specifically capacity for technological development.

Brand Legal Management collaborates closely with the business divisions, considering cost-effectiveness while submitting and managing applications for design and trademark rights (some design rights are handled by the R&D-Intellectual

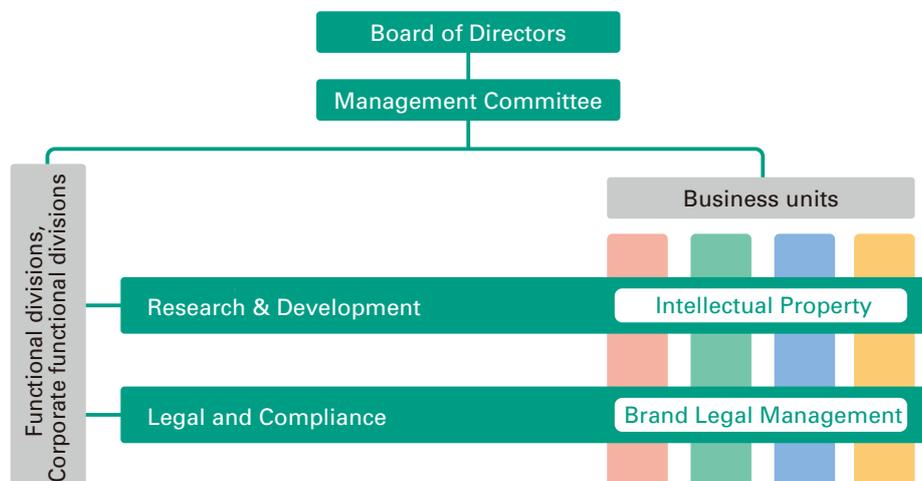
Property Division).

Kao also actively pursues the acquisition of rights outside Japan, while vigorously protecting the company against any infringements of its legal rights, both in and outside Japan. Recently, Kao has been pursuing measures against counterfeit products in Asia and other regions.

At the same time, we strive to respect the industrial rights of other companies in Japan and overseas, to avoid infringing upon them from the initial stages of our R&D activities, reconfirming existing patents before new product launches and taking action as necessary.

Structures

Industrial property rights management structure



IP protection and utilization (DMA)

Education and promotion

We have introduced and are continually fine-tuning a generous range of IP education and training programs for researchers aligned with, for example, their years of experience and roles, so that such researchers can play an active part in IP-related activities under their own initiative. In 2016, a total of around

700 researchers participated in IP education and training programs, and an e-learning program was formally introduced in the same year to enhance the effectiveness of such programs.

Mid- to long-term targets

- Continuously build and actively utilize own patent portfolio optimized by both volume and quality
- Ensure effective and efficient prevention of third party IP-related incidents



2016 results

In 2016, the number of new patent applications was approximately 120% of the previous year, and the income from patent licenses also increased. This was attributable to the aggressive excavation of new inventions and active utilization of patent rights.

Collaboration with stakeholders

We have created opportunities for direct dialogue with management levels in the Japan Patent Office and European Patent Office, in order to allow us to maintain an accurate grasp of the latest trends in IP administration.

We have also created opportunities for direct dialogue with patent attorneys in major countries and regions (Europe, the Americas, China, Korea and Taiwan) and multiple emerging nations to deepen our understanding of global IP practice.

Specific initiatives

Handling of Intellectual Property issues with other corporations

Global

We regard Intellectual Property, including patents, as critical business assets, and are making efforts to appropriately and effectively utilize such resources. In addition, in cases where IP issues with other corporations arise, we make efforts to resolve these in dialogue with those corporations, to the extent that this is feasible.

Following three years of discussions with P&G (U.S.), we succeeded in achieving agreement on royalty-bearing licencing for a patent cluster in the field of hair colors, the rights of which are owned by Kao outside Japan. This licencing contract is retrospective and also includes conditions in case of transfer of the hair color business by P&G to another corporation.

Remuneration and incentives for employee inventions

Global

The incentive system for employee inventions is intended to celebrate significant inventions by researchers from our company which contribute to the business. We give weight to the perspective that this will incentivize further inventions. Incentives include those awarded for patents practiced internally at Kao which have led to excellent commercial outcomes, and license income incentives for patents which have resulted in significant income as a result of licencing to third parties.

We implemented incentive systems based on internal

practices of inventions and licencing incomes in 2016, marking the 17th consecutive year these have been awarded since the beginning of this system at Kao Corporation. Every year the President offers words of appreciation and encouragement at an awards ceremony for presentation of the incentives to the inventors.

Group companies outside Japan have continuously coordinated incentives systems too, as it is also necessary to apply the Employee Invention System by country.

Promotion of industrial property right management at global

Global

We consider securing of outcomes of R&D at Group companies outside Japan as industrial property rights an important step in realizing our *Yoki-Monozukuri* globally and responding to local consumers and client needs. For this reason, we actively provide the platforms for exchange and mutual enlightenment among persons with responsibility for IP at Kao Corporation and Group companies both in and outside Japan, while taking measures to execute related work duties collaboratively. We also focus our capacities to support IP-

related activities at different localities, with an emphasis on IP education and training for Group company researchers outside Japan.

New patent applications from Group companies in six countries outside Japan in 2016 reflect these undertakings. We are deepening our mutual ties in order to increase asset values as a whole, for rights acquisition and rights utilization based on these patent applications born overseas.

Response to counterfeit goods problem in emerging nations

Global

For business expansion in emerging nations, the risk posed by the rapid diffusion of counterfeit goods increases for products which are well-received locally. Thus, finding the appropriate countermeasure having understood the situation of counterfeit goods is an important issue. Some counterfeit goods are associated with safety concerns. In such cases it is not merely a question of protecting the brand value of the Kao product being counterfeited, but also becomes imperative that countermeasures to ensure the health and safety of local consumers are put in place.

China in particular could be called a highly litigious society, when compared to Japan, as there are many more cases of IP-related litigation. There may thus be times when a resolute stance is taken to address the issue of counterfeit goods in a lawsuit, depending on the particularities of the cases. As part of measures against counterfeit goods, patent infringement litigations, each with a request for injunction and damage compensation, are currently ongoing against local manufacturers based on alleged infringement of Kao's patent rights at IP courts in Beijing and Shanghai (courts specializing in IP).

Trademark and design rights

Global

At Kao, the Brand Legal Management Department, which is affiliated with Legal and Compliance Division, is in charge of trademark and design rights (some design rights are handled by the R&D–Intellectual Property Division). Along with conducting sufficient availability searches for new namings or designs, in order not to infringe on rights of any third parties, they endeavor to widen the scope of rights secured, in order to maintain Kao's brand value.

Corporations with marketing teams are important for our trademark activities in particular. For this reason, in addition to the Kao Corporation Head Office, we have bases in four locations in Europe and the United States, and aim for smooth

communications with marketing teams located globally. Further, we manage the advance planning and progress of processes over the entire schedule, from commencement of product naming through trademark application and approval, in order to ensure timely naming in sync with product development schedules.

We have consolidated our system for the early elimination of counterfeit goods, which have been on the rise in recent years, by means of corporations with, for example, governmental authorities, e-commerce site managers, and corporations in the industry, while also enhancing our monitoring of markets, including e-commerce sites.

Risk and crisis management (2, 14, 45, 46, 49, DMA)

Kao's approach

Kao aspires to risk and crisis management which can respond both appropriately and swiftly to changes in the business environment, to minimize the damage and loss in the unlikely cases where risks become manifest and to prevent the manifestation of risks, on all fronts of business activity.

Social issues and Kao's approach

The globalization of our business is increasing the complexity and uncertainty of the management environment. With the development of social media, the scale and speed of the impact on business activities when a risk becomes manifest is also on an upward trend.

In light of this situation, Kao has, since 2015, worked on the three following fronts to institute an appropriate management structure: expanding its risk management domains to include not only operational risks but also strategic risks, identifying corporate risks and introducing systems to manage such risks and bolstering its response structure in the event of a crisis, and improving crisis awareness.

Major risks

- Inability to respond to the changing needs of consumers
- Occurrence of major quality issues and concerns over the safety and security of Kao products
- Hindrances to product supply due to natural disaster or accident
- Restrictions on business activities due to major law violations, regulation changes or additional regulations
- Leak of confidential or personal information, among others

Policies

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." Kao appropriately

manages the various risks and crises that could occur throughout its overall business activities in accordance with the Kao Risk and Crisis Management Policy.

Structures

The Risk and Crisis Management Committee, chaired by an executive officer in charge of risk and crisis management, establishes a system and operating plans for risk management. Each division, subsidiary, and affiliated company ascertains and evaluates risk based on these operating plans and conducts risk management by formulating and implementing appropriate countermeasures. Furthermore, the Management Committee has designated major management risks that would have a significant impact on Kao's business as "corporate risks," and executive officers who are in charge of managing such risks formulate and implement the necessary countermeasures. In these ways, Kao is strengthening its Company-wide response to risk.

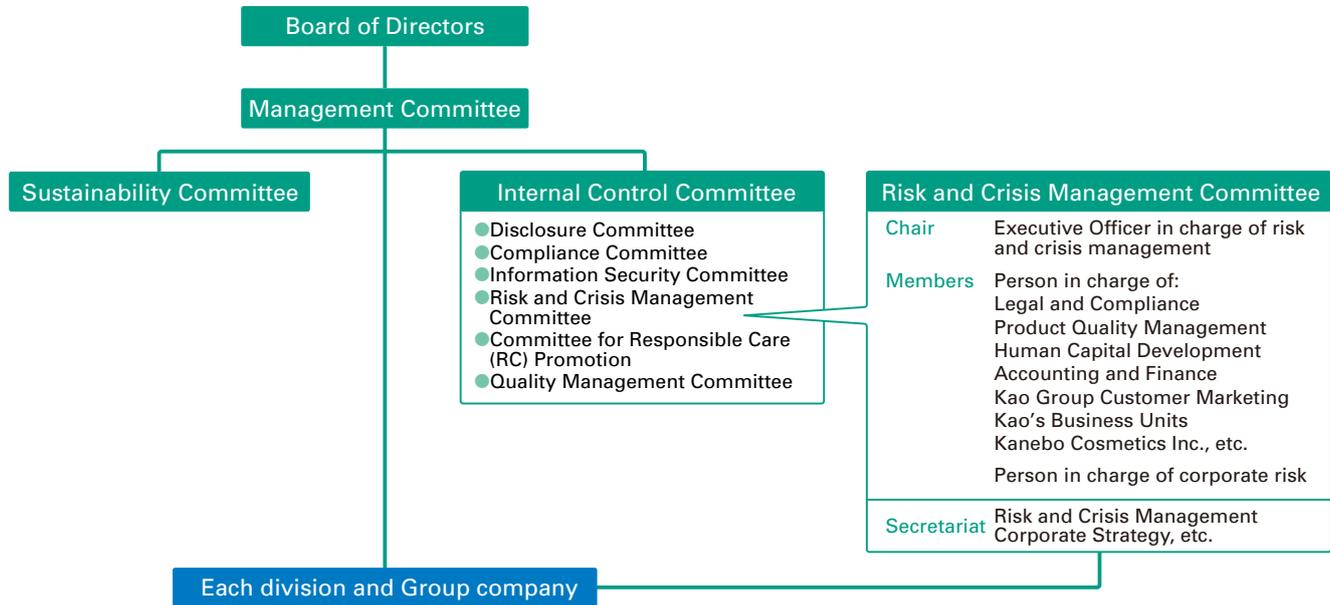
When a crisis occurs, Kao responds promptly to minimize physical damages and financial losses by establishing an

organization for countermeasures. This organization centers on the executive officer in charge of managing corporate risks as well as on personnel responsible for managing risk within Company divisions and at subsidiaries and affiliates. In addition, depending on the magnitude of the impact on the Kao Group as a whole, Kao also establishes a countermeasure headquarters with the President and CEO or executive officer as its general manager.

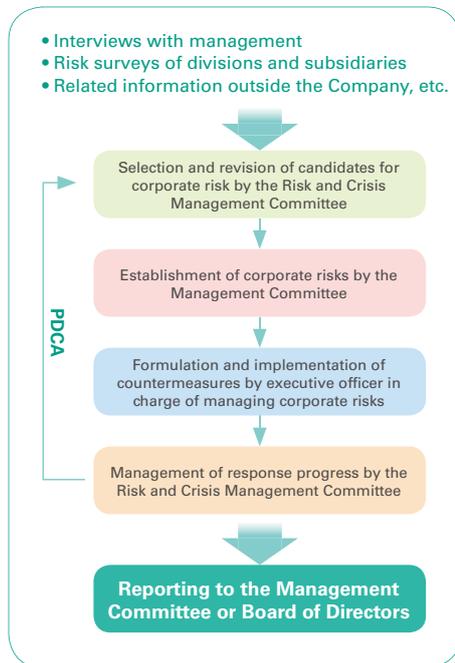
Management of the above-mentioned risks and crises is reported and discussed at the meetings of the Management Committee or the Board of Directors on a regular basis as well as in a timely fashion whenever necessary.

Risk and crisis management (2, 14, 45, 46, 49, DMA)

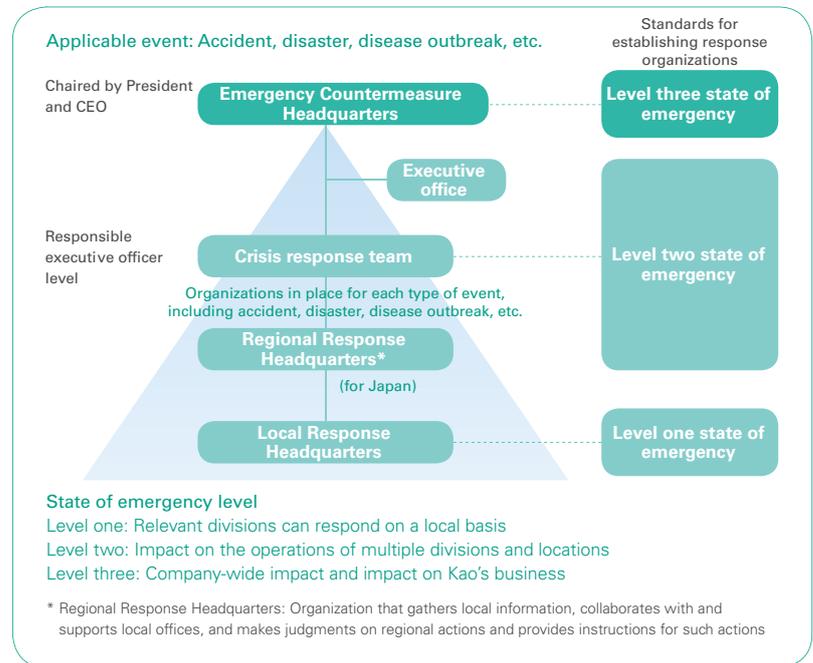
Risk and crisis management structure



Management of corporate risk



Management structure during time of crisis



*System to be followed in the event of a crisis
 Within the Kao Group, when a crisis occurs, the head of the crisis response team will evaluate the level of severity of the crisis on the basis of the potential impact on the Kao Group (designating the crisis as Level 1, Level 2 or Level 3 depending on the severity of the accident, disaster, epidemic, etc. in question), and an appropriate organizational framework will be established for dealing with the crisis in accordance with the level of severity.

Education and promotion

Persons in charge of risk and crisis management for domestic divisions, subsidiaries both inside and outside Japan, and affiliated companies are responsible for making the management structure for the major risks stipulated by the Risk & Crisis Management Committee widely known. In addition, we also conduct briefings as needed.

We indicate the emergency contact and response structure for when a major risk manifests, as well as issuing alerts and providing information on issues such as overseas safety,

infectious illnesses and information security on both regular and as-needed bases for regular employees, using our internal portal website.

At the same, we are promoting the enhancement of response capacities at times of crisis and the instillation of a crisis mindset by conducting reporting training, safety confirmation drills, and external response drills for times of emergency, on a regular basis.

Mid- to long-term targets

Promotion of superior-level risk and crisis management is required in implementing the Kao Group Mid-term Plan 2020 (K20).

To this end, we are promoting appropriate management of corporate risk and enhancement of risk response in

subsidiaries and affiliated companies outside Japan, in addition to the risk and crisis management currently in place. We will also enhance the structure for dealing with crises as they occur. By these means, we aspire to risk and crisis management which is of genuine value and effectiveness.

2016 results

In 2016, we enhanced responses to corporate risk based on progress management of the Risk & Crisis Management Committee. Corporate risk includes risks which impact on management strategy as well as risks which impact on business continuity, such as natural disasters, including large scale earthquakes or pandemics. After building a response structure for corporate risk, we established issues and drafted specific risk reduction strategies. We also drafted and reviewed, for example, guidelines or action plans as needed. For risks for which a new response structure has been formulated, we briefed the targeted divisions, subsidiaries and affiliates to give the widest possible exposure for crisis response while posting information on our internal portal website.

We also began posting a monthly "Crisis Management Bulletin" on our internal portal website, with information on risk and crisis management for Japan Group employees beginning in October 2016. This was begun with the aim of

facilitating an accurate understanding of risk and an appropriate and swift response when a crisis occurs.

At the same time, we promote the enhancement of response capacities at times of crisis and the instillation of a crisis mindset by conducting reporting training, safety confirmation drills, etc. for times of emergency.

Main training/drills in 2016

- Emergency reporting training presumed on a large scale earthquake (implemented twice in Japan)
- Safety confirmation drills presumed on a large scale earthquake (implemented twice targeting all Japan Group employees)
- External response drill presumed on plant fire/explosion (implemented at three plants in Japan)
- Emergency reporting training from overseas base to Kao head office in Japan (implemented at 25 overseas bases)

Responsible Care Activities (14, 15, 50, DMA, LA10)

Kao's approach

Kao vigorously implements Responsible Care activities, which are self-monitoring activities by companies engaged in the chemical industry, to ensure ongoing several safety issues and environmental conservation.

Social issues and Kao's approach

The stable provision of products and ensuring the quality and safety of those products, along with the provision of a safe and hygienic working environment and the reduction of environmental impact from business activities, are important social responsibilities. These responsibilities must be fulfilled in our capacity as a chemicals manufacturer providing diverse materials, products and systems to wide-reaching industries,

with bases both within and outside Japan.

Based on this principle, Kao has implemented Responsible Care activities to autonomously ensure aspects of environment, health and safety in the chemicals industry. We aspire to building trust relationships with society and the creation of a sustainable society by pursuing these activities.

Policies

Kao carefully safeguards individuals and the environment at every step of business, from product development to manufacturing, distribution, use, disposal and recycling, and part of its mission is to help bring about sustainability in society.

The Kao Group as a whole remains committed to the promotion of RC activities, participating in such activities since the 1995 establishment of the Japan Responsible Care Council. In 2008, then-President and CEO Motoki Ozaki signed a declaration of support for the RC Global Charter, and again in 2014 President and CEO Michitaka Sawada signed the revised RC Global Charter.

To achieve this objective, we have established the Kao Responsible Care Policy based on the basic pillars of RC activities* (self-monitoring efforts governing the environment, safety and health set out by the chemical industry). The Kao Group as a whole, including subcontractors, sets targets each year, and implements those activities based on an annual plan.

* Basic pillars of RC activities

Five objectives (environmental conservation, process safety and disaster prevention, occupational safety and health, chemical and product safety, and distribution safety) and communication with society

➔For details, refer to Kao Responsible Care Policy
http://www.kao.com/jp/en/corp_csr/eco_activities_05_00.html

Structures

The Responsible Care Promotion Committee is positioned as one of the Internal Control Committees (chaired by the President), with specific activities divided among eight promotional divisions* within Japan. The Responsible Care Promotion Committee is convened annually and chaired by the head of the Sustainability Department. It is composed of 14 members: representatives from the above-mentioned eight promotional divisions within Japan, plus four divisions, and the head of the Quality Assurance Division. The RC Promotion

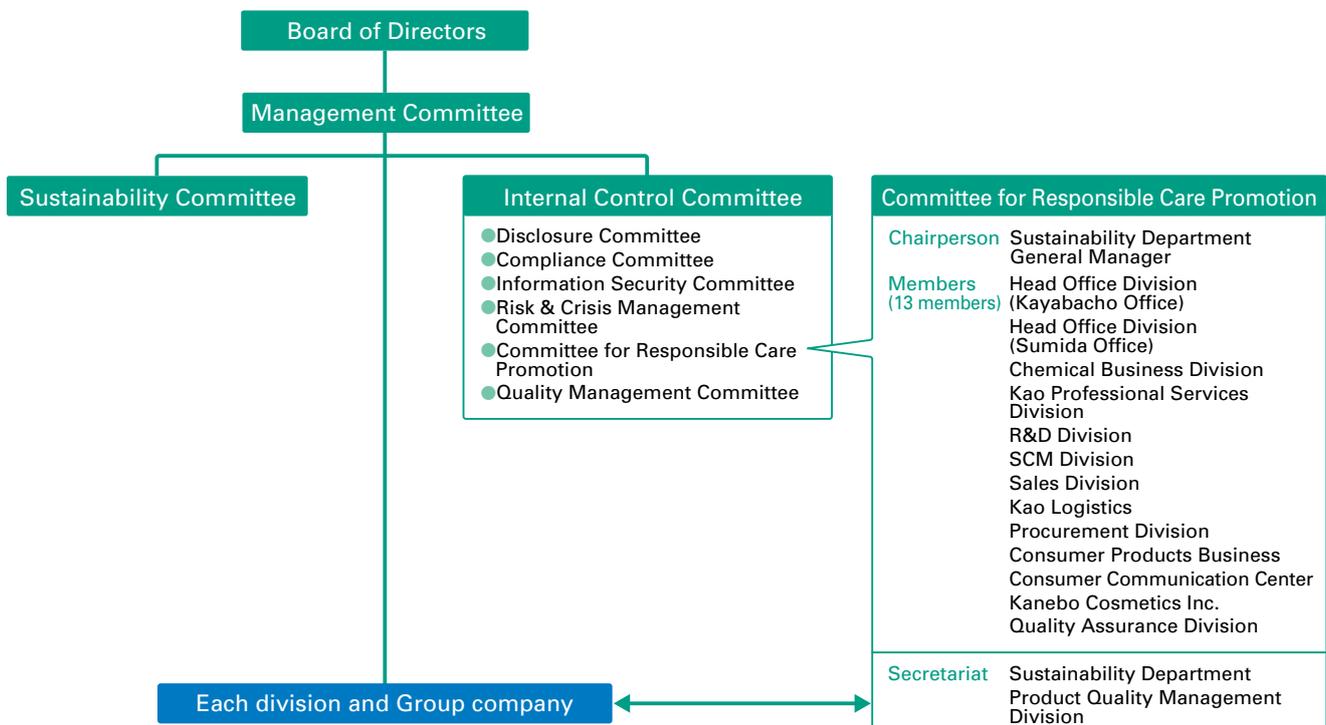
Group of the Sustainability Department and Quality Assurance Division serve as the secretariat of the committee.

Each company involved in the Chemical Business in the Kao Group, including Kao Corporation, participates in planning at the chemical industry association in their respective countries to promote RC activities.

* Eight promotional divisions

Head Office Division (Kayabacho Office), Head Office Division (Sumida Office), Chemical Business Division, Kao Professional Services Division, R&D Division, SCM Division, Sales Division, Logistics Division

RC promotion system



Education and promotion

Global

The RC Promotion Committee Secretariat and RC promotion staff of the individual divisions in charge of RC promotion regularly provide RC education on the environmental conservation, occupational safety and health activities for Kao employees and the staff of its business partners.

In 2016, the RC Promotion Committee Secretariat carried out group training 46 times, reaching a total of 622 employees (22 times within Japan with 468 participants and 24 times outside Japan with 154 participants).

Mid- to long-term targets

Global

Kao is promoting day-to-day RC activities to become a top-level global corporation for safety and environmental criteria by 2020.

Responsible Care Activities (14, 15, 50, DMA, LA10)

Collaboration with stakeholders

Global

Kao Group companies implement active exchanges with stakeholders and others as well as various other activities in line with one of the basic pillars of RC activities, namely communication with society.

→p.99 Community > Corporate citizenship activities: Overview

Specific initiatives

Standardization of RC activities

Global

The eight promotional divisions within Japan and all affiliated companies outside Japan promote RC activities based on the Kao Responsible Care Targets set by the Kao Group RC Promotion Committee, drafting activity plans aligned with various operational requirements, industries and business categories.

Respective Kao Group companies confirm and refine the PDCA (Plan–Do–Check–Act) cycle of RC activities using this promotional framework.

At the Kao Group RC Promotion Committee held in September of each year, members discuss initiatives to clarify courses of action and strengthen the management system, and deliberate over the following year's numerical targets and activity targets based on the Kao Group's mid-term targets and the results of the RC Promotion Committee Secretariat Audit conducted in August.

At the Global RC Meeting held in October, the RC Promotion Committee Secretariat explains the Kao Group's mid-term targets and targets for the upcoming year, decided at the Kao Group RC Promotion Committee, and requests each company to devise its respective targets and plan for the upcoming year. Representatives from each company present the status of their RC activities and share information with the Kao Group.

At the Japan RC Meeting held in December, based on these numerical targets and activity targets for the Kao Group decided at the Kao Group RC Promotion Committee, RC Promotion Committee members announce their respective division plan for the upcoming year, each of which the committee then discusses. The RC Promotion members convey the deliberation results to their respective divisions, relating the content in detail

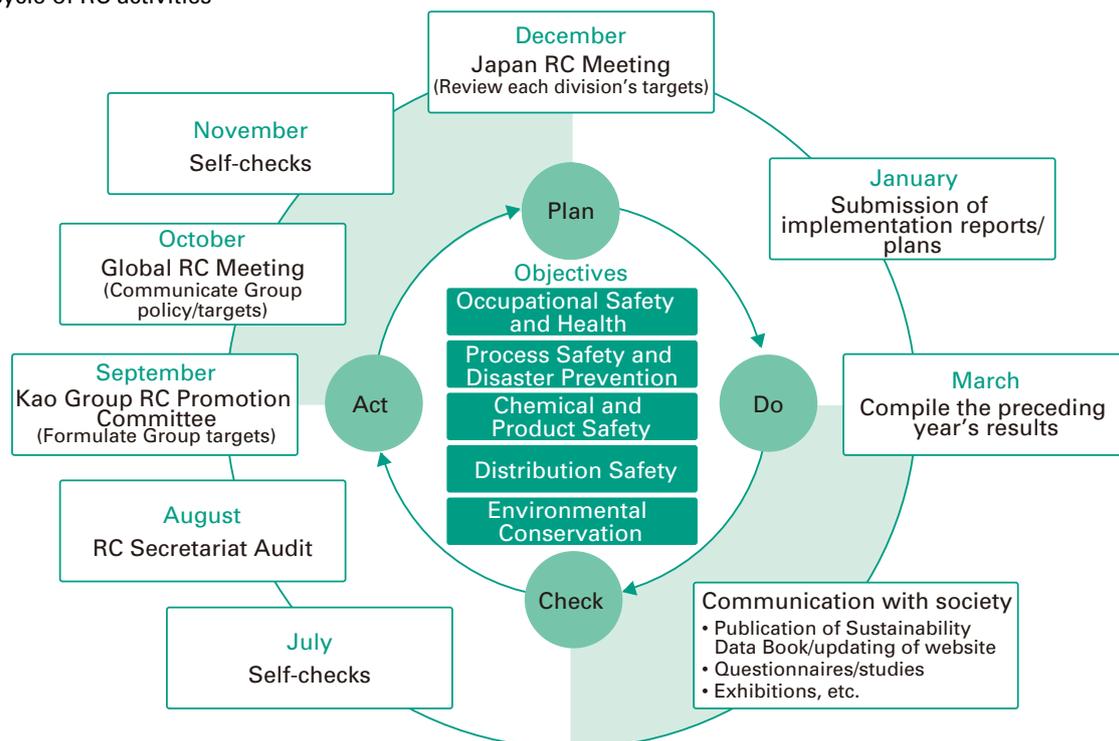
to their activity units in an effort to improve and enhance RC activities closely connected to each worksite.

The Kao Group RC Promotion Committee meeting was held on September 14, 2016. The RC Promotion Committee Secretariat announced the Kao Group's overall first-half results in relation to 2016 RC targets, and the results of the RC Promotion Committee Secretariat Audit. The promoting divisions also announced the current state of their promotion activities. Finally, the Kao Group's RC targets for 2017 were agreed upon for deliberation.

The Global RC Meeting was held at the Wakayama Plant from October 3 to 5, with attendance by 16 people from 13 affiliated companies outside Japan (also 13 the previous year). The meeting promoted understanding of Kao RC Policy and 2017 targets were confirmed. Participants could observe how RC activities and advice were implemented in other companies, analyze strengths and weaknesses, and share best practices, with the interactive communication leading to enhanced global RC activities. In addition, tours of production facilities were incorporated in 2016 at the Wakayama Plant, which is a mother plant of Kao Japan. Participants received direct explanations on-site from persons in charge of health and safety measures to foster a greater understanding of specific activities.

At the Japan RC Meeting held on December 5, each RC Promotion Committee members announced their 2017 draft plans; the plans were then discussed and approved. The RC Promotion Committee Secretariat then reported on the Group's 2016 environmental and safety record.

Annual cycle of RC activities



Utilization of environmental and safety database

Global

Kao has developed the Environmental & Safety Data Management System (KANCHAN System)* to further reduce both environmental impact and occupational accidents.

The KANCHAN System automatically calculates Kao's total GHG emissions and the annual frequency and severity rate of occupational accidents, along with other data-based practical information used to reduce our environmental impact and eliminate occupational accidents.

We are planning to shift to a new system that will enable

effective sharing of environmental and safety data, with the aim of 2018 implementation.

* Environmental & Safety Data Management System (KANCHAN System) Data shared among the Kao Group under this system includes those related to energy consumption, GHG emissions, soot and dust emissions, water consumption, wastewater amounts, wastewater concentration measurements, soil and groundwater measurements, amounts of handling, release and transfer of PRTR materials, waste generated, discharged, and final disposed of waste, occupational accident statistics, and traffic accident statistics.

Implementation status of the RC Promotion Committee Secretariat Audit

Global

At Kao, individual divisions in charge of RC promotion conduct self-checks in July, and the audit team selected by the RC Promotion Committee Secretariat implements an audit of individual divisions in Japan in charge of RC promotion and affiliated companies outside of Japan in August to determine the progress of RC activities and challenges to be addressed.

These results are reported at the Kao Group RC Promotion Committee held each September and help formulate the next year's activity targets.

Between July and August, 2016, the RC Promotion Committee Secretariat Audit was conducted at eight promotion divisions in Japan and 20 affiliated companies with plants outside Japan (an increase of three from the previous year)* using a checklist sheet, with consideration to the degree of influence of safety and environmental aspects.

In Japan, in meetings with the promotion divisions, various situations were confirmed—the current state of compliance with regulatory requirements and criteria, progress in planning and achieving numerical targets, etc. Improvements were

observed in many areas pointed out in the 2015 audit—in risk assessment, identification of regulatory requirements, and the procedures, criteria and implementation of record-keeping for education and training, etc.

Outside Japan, the checklist sheet was sent to companies, and a paper audit was conducted of the response results. Requests were made including those concerning various improvement plans, in particular risk assessments of occupational safety and the drafting of a plan to reduce waste with specified risks.

The audit results (see below table) were presented at the Kao Group RC Promotion Committee and Global RC Meeting.

* Kao Corporation Shanghai, Shanghai Kanebo Cosmetics Co., Ltd, Kao (Hefei) Co., Ltd., Kao Chemical Corporation Shanghai, Kao (Shanghai) Chemical Industries Co., Ltd., Huludao Jinxing Casting Materials Co., Ltd, Kao (Taiwan) Corporation, Kao Vietnam Co., Ltd., Pilipinas Kao Incorporated, Kao Commercial (Thailand) Co. Ltd., Fatty Chemical (Malaysia) Sdn. Bhd., PT Kao Indonesia, PT Kao Indonesia Chemicals, Kao USA Inc., Kao Specialties Americas LLC, Quimi-Kao S.A. de C.V. (Mexico), Kao Manufacturing Germany GmbH, Kao Chemicals GmbH (Germany), Molton Brown Limited (UK), Kao Corporation S.A. (Spain)

Results of RC Promotion Committee Secretariat Audit (2016)

	SCM	R&D	Business divisions	Corporate divisions	Affiliated companies in Japan ^{*1}	Affiliated companies outside Japan ^{*2}
No. of questions	154	128	181	368	438	3,524
No. of items requiring mitigation	2	4	3	7	14	—
Average evaluation score (5-point scale)	4.87	4.96	4.73	4.38	4.51	4.16

*1 Affiliated companies in Japan
Kao Professional Services Co., Ltd., Kao Group Customer Marketing Co., Ltd., Kao Customer Marketing Co., Ltd., Kanebo Cosmetics Sales, Inc., Kao Transport & Logistics Co., Ltd.

*2 Affiliated companies outside Japan
20 companies (13 in Asia, 7 in Europe and the Americas)

Responsible Care Activities (14, 15, 50, DMA, LA10)

Topic

Kao Logistics receives the Outstanding Prize at the Responsible Care Awards

Kao Transport & Logistics Co., Ltd. was awarded the Outstanding Prize at The Japan Chemical Industry Association's 10th Responsible Care Awards for its initiatives for reduction of traffic accidents and environmental impact in distribution operations. This is the third consecutive year since 2014 that the Kao Group has been thus honored. The current award was based on the excellent assessment of the outcomes of activities for the elimination of traffic accidents and energy conservation promoted over 10 years under the Kao Transport & Logistics Co., Ltd. slogan "To become the most reliable and safest logistics company in Japan."



Awards ceremony

Status of international management system certification

Global

Kao has introduced an RC management system in all Kao Group. Furthermore, some plants have also received ISO 14001 certification, the global environmental standard, as well as OHSAS 18001 certification, the standard for occupational health and safety, in addition to further certification in respective countries.

Obtained ISO 14001 certification (Environmental)

The percentage of Kao plants which have received this certification is 95% (based on total production volumes standard).

Certifications obtained at 15 individual plants in Japan and Asia have been integrated to standardize and upgrade operations. We will expand the scope of certified plants on an ongoing basis, while increasing the numbers of integrated plants.

Obtained OHSAS 18001 certification (Occupational health and safety)

The occupational health and safety management standard, has been obtained at plants outside Japan where there are many work-related accidents when compared to Japan and enhancement of labor management is being promoted. The percentage of Kao plants which have received this certification is 35% (based on total production volumes standard). We will endeavor to expand the scope of certified plants on an ongoing basis.

Obtained ISO 9001 certification (Product quality)

In 2016, 95% of plants have obtained external certification (based on total production volumes standard). We will continue to expand the scope of certified plants.

List of external obtained certifications

➔Certification Status of ISO and Other Standards

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

External evaluation

SRI indexes and evaluations (As of May 1, 2017)

Global

SRI indexes

For the third year in a row, Kao has been selected for inclusion in the Dow Jones World Index (DJSI World), one of the world's most renowned socially responsible investment (SRI) indices. In addition to DJSI World, Kao has also been continuously included in other major SRI indices recognized around the world.



- For details, refer to FTSE4Good Index Series
http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp
- For details, refer to MSCI ESG Universal Indexes
<https://www.msci.com/esg-integration>
- For details, refer to MS-SRI Morningstar Socially Responsible Investment Index
<http://www.morningstar.co.jp/sri/index.htm> (Japanese)

Evaluation

Kao was selected as a CDP Water 2016 A List company, which is the highest evaluation, in recognition of its active water resource initiatives under a survey conducted by the British NPO, the CDP, with regards to environmental measures. Furthermore, Kao has been recognized by the Ethisphere Institute, a U.S.-based organization that defines and measures corporate ethical standards, as one of the World's Most Ethical Companies for the 11th consecutive year.



Recognition by outside organizations

List of recognition by outside organizations in 2016

Global

Various initiatives conducted by the Kao to contribute to realizing a sustainable society have earned high recognition.

Conservation

Date of award	Group recognized	Name and details of recognition	Sponsoring organization
2016/02	Kao Sanitary Products Ehime Co., Ltd.	Certified as a Superior Material-Cycle Business in recognition of business sites manufacturing and selling model recycled products toward a sound material-cycle society, and for being actively engaged in waste generation control, reuse and recycling	Ehime Prefecture
2016/09	Pilipinas Kao, Inc	Received the Award for Excellence in Productivity Improvement for reduction of waste from research samples at the 36 th Productivity Improvement Circles National Convention	Quality and Productivity Association of the Philippines, Inc.
2016/10	Kao Corporation	Achieved 1 st place in the household and personal care industry ranking in the Clean Supply Chain Ranking of the Corporate Information Transparency Index (CITI)	Three bodies including IPE and the Sustainability Consortium
2016/11	Kao Customer Marketing Co., Ltd.	Received the Environment Minister's Award for Global Warming Prevention Activity for continuous environmental communication activities for consumers toward the practice and diffusion of lifestyles to prevent global warming	Ministry of the Environment
2016/12	Kao Corporation	Received the Minister of Economy, Trade and Industry Award for the Kao/Aeon trailer relay transportation initiative between partners in different industries for improved drivers' operational efficiency and reductions in CO ₂ emissions	Ministry of Economy, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism; Japan Institute of Logistics Systems; Japan Association for Logistics and Transport
2016/12	Kao Corporation	Selected as a CDP Water 2016 A List company for highly evaluated "eco together" activities conducted in collaboration with various stakeholders for water resources	CDP

Community

Date of award	Group recognized	Name and details of recognition	Sponsoring organization
2016/02	Kao Corporation	Selected for the Consumer-oriented Activities Award at the 1 st Annual Consumer-oriented Activities Awards (ACAP) for promotional activities involving original broadcasts of closed captioning TV commercials, evaluated as being a pioneering initiative not just for people with hearing impairments but also for the aging society	The Association of Consumer Affairs Professionals
2016/05	Kao Corporation	Received the WorldStar Award for high evaluation for excellence in utility of <i>CuCute One-Push Clear Gel</i> dishwasher detergent, used for single-handed dispensing of appropriate amounts of cleaning agents	World Packaging Organization
2016/06	Kao Corporation	Received the 40 th Kinoshita Prize New Creation Category for <i>Raku-raku Eco Pack Refill</i> developed based on a universal design concept for both user and environmental friendliness	Japan Packaging Institute
2016/08	Nivea-Kao Company Limited, Kao Corporation	Received the President of Japan Packaging Institute Award at the Japan Packaging Contest 2016 for provision of easy-to-use and hygienic packaging to consumers for <i>8x4 Underarm Anti-Perspiration EX Cream Capsule</i> . Four additional Kao Group products were also awarded prizes	Japan Packaging Institute
2016/11	Kao Corporation	Received the Society Award for receiving approval in OECD Test Guidelines of the alternative cell-based short time exposure (STE) eye irritation test, an original test developed by Kao to conduct safety assessments without relying on animal testing	The Japanese Society for Alternatives to Animal Experiments

Culture

Date of award	Group recognized	Name and details of recognition	Sponsoring organization
2016/01	Kao Corporation	Selected as a Health & Productivity Stock as a company strategically working from a management perspective to manage the health of employees and others	Ministry of Economy, Trade and Industry, The Tokyo Stock Exchange
2016/03	Kao Corporation	Selected to the World's Most Ethical Companies list in 2016, in recognition of excellence in standards and practices for corporate ethics, governance, social responsibility, citizenship activities, and corporate culture for 10 straight years	Ethisphere Institute
2016/06	Kao Corporation	Received the Platinum Kurumin Certification as a company with superior childcare, in recognition of various measures to dually support work and childcare and outcomes of those measures	Ministry of Health, Labour and Welfare
2016/06	Kao Chemicals GmbH	Selected in 2 nd place at the Health Management Convention for favorable evaluation of initiatives for employee health promotion using precision management systems	North Rhine-Westphalia state, Germany
2016/08	Kao Corporation	Received the 3 rd Award for Successful Fostering of Female Technicians for initiatives to expand the scope of female work domains to consolidate educational activities while fostering many female technicians over the years	Japan Association of Technology Executives
2016/10	Wakayama Plant Kao Corporation	Certified as a Wakayama Health Promoting Company for favorable evaluation of health promotion initiatives including establishment of a walking course in a protective pine grove located in Wakayama Plant	Wakayama Prefecture

Responsible Care Activities

Date of award	Group recognized	Name and details of recognition	Sponsoring organization
2016/05	Kao Transport & Logistics Co., Ltd.	Awarded Grand Prize at the 10 th Responsible Care Awards for high evaluation of outcomes of activities for traffic accident elimination and energy conservation promoted over a period exceeding 10 years	Japan Chemical Industry Association

Independent assurance report (33)



Independent Assurance Report

To the President and CEO of Kao Corporation

We were engaged by Kao Corporation (the “Company”) to undertake a limited assurance engagement of the environmental and social performance indicators marked with ★ for the period from January 1, 2016 to December 31, 2016 (the “Indicators”) included in its Kao Sustainability Data Book 2017 (the “Data Book”) for the fiscal year ended December 31, 2016.

The Company’s Responsibility

The Company is responsible for the preparation of the Indicators in accordance with its own reporting criteria (the “Company’s reporting criteria”), as described in the Data Book, which are derived, among others, from the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative and Environmental Reporting Guidelines of Japan’s Ministry of the Environment.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Indicators based on the procedures we have performed. We conducted our engagement in accordance with ‘International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information’, ‘ISAE 3410, Assurance Engagements on Greenhouse Gas Statements’, issued by the International Auditing and Assurance Standards Board, and the ‘Practical Guidelines for the Assurance of Sustainability Information’ of the Japanese Association of Assurance Organizations for Sustainability Information. The limited assurance engagement consisted of making inquiries, primarily of persons responsible for the preparation of information presented in the Data Book, and applying analytical and other procedures, and the procedures performed vary in nature from, and are less in extent than for, a reasonable assurance engagement. The level of assurance provided is thus not as high as that provided by a reasonable assurance engagement. Our assurance procedures included:

- Interviewing with the Company’s responsible personnel to obtain an understanding of its policy for the preparation of the Data Book and reviewing the Company’s reporting criteria.
- Inquiring about the design of the systems and methods used to collect and process the Indicators.
- Performing analytical reviews of the Indicators.
- Examining, on a test basis, evidence supporting the generation, aggregation and reporting of the Indicators in conformity with the Company’s reporting criteria, and also recalculating the Indicators.
- Visiting the Company’s Sakata Plant and Kao Industrial (Thailand) Co., Ltd. selected on the basis of a risk analysis.
- Evaluating the overall statement in which the Indicators are expressed.

Conclusion

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Indicators in the Data Book are not prepared, in all material respects, in accordance with the Company’s reporting criteria as described in the Data Book.

Our Independence and Quality Control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. In accordance with International Standard on Quality Control 1, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

KPMG AZSA Sustainability Co., Ltd.

KPMG AZSA Sustainability Co., Ltd.

Tokyo, Japan

June 9, 2017

GRI/ISO 26000 content index (32)

GRI G4 Guidelines content index

This data book contains Standard Disclosures from the GRI Sustainability Reporting Guidelines

GENERAL STANDARD DISCLOSURES

STRATEGY AND ANALYSIS

Indicator	Description	Relevant Sections in Data Book
1	Statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability	•CEO Message P3
2	Description of key impacts, risks, and opportunities	•CEO Message •Kao's Approach to Sustainability: Philosophy •Kao's Approach to Sustainability: Social Issues and Kao's Approach •Risk and crisis management P3 P6 P8 P180-182

ORGANIZATIONAL PROFILE

Indicator	Description	Relevant Sections in Data Book
3	Name of the organization	•Kao Group Overview (external link) –
4	Primary brands, products, and services	•Kao Group Fields of Business (external link) –
5	Location of the organization's headquarters	•Kao Group Overview (external link) –
6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	•Global Gateway (external link) –
7	Nature of ownership and legal form	•Kao Group Overview (external link) –
8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	•Global Gateway (external link) –
9	Scale of the organization, including: a. Total number of employees b. Total number of operations c. Net sales (for private sector organizations) or net revenues (for public sector organizations) d. Total capitalization broken down in terms of debt and equity (for private sector organizations) e. Quantity of products or services provided	•Kao Group Overview (external link) –
10	Composition of the workforce, including: a. Total number of employees by employment contract and gender b. Total number of permanent employees by employment type and gender c. Total workforce by employees and supervised workers and by gender d. Total workforce by region and gender e. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries)	•Promoting diversity & inclusion: Support for the active utilization of diverse human capital P137
11	Percentage of total employees covered by collective bargaining agreements	– –
12	Organization's supply chain	– –
13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	– –

Commitment to External Initiatives

14	Report whether and how the precautionary approach or principle is addressed by the organization	•Kao's Approach to Sustainability: Contributions to the SDGs through business activities •Chemical substances •Product quality management •Communication with corporate customers (Chemical Business): Collaboration with stakeholders •Process safety and disaster prevention: Social issues and Kao's approach/Policies/Structures •Process safety and disaster prevention: Specific initiatives •Information security: Policies •Risk and crisis management: Structures •Responsible Care Activities: Social issues and Kao's approach P9 P41-51 P74-77 P93 P155 P157-158 P170 P180-181 P183
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15	List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	<ul style="list-style-type: none"> •CEO Message (Support for the United Nations Global Compact) •Kao's Approach to Sustainability: Contributions to the SDGs through business activities •Human rights initiatives: Policies •Sustainable and responsible procurement (RSPO accession) •Responsible Care Activities (Support for the RC Global Charter) 	<p>P3</p> <p>P9</p> <p>P120</p> <p>P125</p> <p>P183</p>
16	List of memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization is participating in	–	–

IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES

Indicator	Description	Relevant Sections in Data Book	
17	a. List of all entities included in the organization's consolidated financial statements or equivalent documents b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report	•Kao Group Overview (external link)	–
18	a. Process for defining the report content and the Aspect Boundaries b. How the organization has implemented the Reporting Principles for Defining Report Content	•Kao's Approach to Sustainability: Social Issues and Kao's Approach	P8
19	List of all the material Aspects identified in the process for defining report content	•Kao's Approach to Sustainability: Social Issues and Kao's Approach	P8
20	For each material Aspect, report the Aspect Boundary within the organization	–	–
21	For each material Aspect, report the Aspect Boundary outside the organization	–	–
22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	<ul style="list-style-type: none"> •Editorial Policy: International Financial Reporting Standards (IFRS) •Major sustainability indicators: Percentage of female managers (The definition of "manager" was revised in 2016) •CO₂ emissions across the entire product lifecycle (Some data have been revised) •NO_x emissions (Some data have been revised) •Volume of packaging materials used (Some data have been revised) •Percentage of female managers (The definition of "manager" was revised in 2016) 	<p>P2</p> <p>P19</p> <p>P26</p> <p>P51</p> <p>P61</p> <p>P137</p>
23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	Not applicable	Not applicable

STAKEHOLDER ENGAGEMENT

Indicator	Description	Relevant Sections in Data Book	
24	List of stakeholder groups engaged by the organization	•Kao's Approach to Sustainability: Stakeholder communication	P12
25	Report the basis for identification and selection of stakeholders with whom to engage	–	–
26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	•Kao's Approach to Sustainability: Stakeholder communication	P12
27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns	<ul style="list-style-type: none"> •Universal Design: Specific initiatives •Communication with consumers: Specific initiatives •Communication with corporate customers (Consumer Products Business): Collaboration with stakeholders •Communication with corporate customers (Chemical Business): Collaboration with stakeholders •Communication with corporate customers (Chemical Business): Cooperation with corporate customers and sales distributors •Corporate citizenship activities: Overview: Collaboration with stakeholders •Sustainable and responsible procurement: Partnering with our suppliers •Promoting dialogue with employees: Implementation of the Find 2016 employee opinion survey, and drafting of action plan •Information disclosure: Specific initiatives 	<p>P81</p> <p>P86</p> <p>P89</p> <p>P93</p> <p>P94</p> <p>P101</p> <p>P129</p> <p>P142</p> <p>P168-169</p>

REPORT PROFILE

Indicator	Description	Relevant Sections in Data Book	
28	Reporting period (such as fiscal or calendar year) for information provided	•Editorial Policy	P2
29	Date of most recent previous report (if any)	•Editorial Policy	P2
30	Reporting cycle (such as annual, biennial)	•Editorial Policy	P2
31	Contact point for questions regarding the report or its contents		back cover
GRI Content Index			
32	a. The 'in accordance' option the organization has chosen b. GRI Content Index for the chosen option c. Reference to the External Assurance Report, if the report has been externally assured	•GRI G4 Guidelines content index	P192-200
Assurance			
33	a. Organization's policy and current practice with regard to seeking external assurance for the report b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided c. Relationship between the organization and the assurance providers d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report	•Editorial Policy •Independent assurance report	P2 P191

GOVERNANCE

Indicator	Description	Relevant Sections in Data Book	
Governance Structure and Composition			
34	a. Governance structure of the organization, including committees of the highest governance body b. Identify any committees responsible for decision-making on economic, environmental and social impacts	•Kao's Approach to Sustainability: Sustainability Promotion Structure •Corporate governance: Corporate governance structure	P10 P159
35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	•Kao's Approach to Sustainability: Social Issues and Kao's Approach •Kao's Approach to Sustainability: Sustainability Promotion Structure	P8 P10
36	Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	•Kao's Approach to Sustainability: Social Issues and Kao's Approach •Kao's Approach to Sustainability: Sustainability Promotion Structure	P8 P10
37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body	•Kao's Approach to Sustainability: Social Issues and Kao's Approach	P8
38	Composition of the highest governance body and its committees	•Corporate governance	P159-164
39	Report whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organization's management and the reasons for this arrangement)	•Corporate governance: Board of Directors	P160
40	Nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members	•Corporate governance	P159-164
41	a. Processes for the highest governance body to ensure conflicts of interest are avoided and managed b. Report whether conflicts of interest are disclosed to stakeholders, including, as a minimum: •Cross-board membership •Cross-shareholding with suppliers and other stakeholders •Existence of controlling shareholder •Related party disclosures	•Integrity: Deployment of the BCG revision and other compliance-related rules •Corporate governance	P117 P159-164
Role of Highest Governance Body in Setting the Purpose, Value and Strategies			
42	Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	•Kao's Approach to Sustainability: Social Issues and Kao's Approach •Kao's Approach to Sustainability: Sustainability Promotion Structure •Corporate governance	P8 P10 P159-164
Ability of the Highest Governance Body and Evaluation of its Performance			
43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics	•Kao's Approach to Sustainability: Sustainability Promotion Structure	P10
44	a. Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a self-assessment b. Actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics	–	–

Role of the Highest Governance Body in Risk Management			
45	a. Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes b. Report whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities	<ul style="list-style-type: none"> •Kao's Approach to Sustainability: Social Issues and Kao's Approach •Kao's Approach to Sustainability: Sustainability Promotion Structure •Risk and crisis management: Structures •Corporate governance 	P8 P10 P180-181 P159-164
46	Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics	<ul style="list-style-type: none"> •Risk and crisis management: Structures 	P180-181
47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	–	–
Role of the Highest Governance Body in the Sustainability Report			
48	Highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered	<ul style="list-style-type: none"> •Kao's Approach to Sustainability: Sustainability Promotion Structure 	P10
Role of the Highest Governance Body in the Evaluation of Social, Environmental and Social Performance			
49	Process for communicating critical concerns to the highest governance body	<ul style="list-style-type: none"> •Risk and crisis management: Structures 	P180-181
50	Nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	<ul style="list-style-type: none"> •Process safety and disaster prevention: High-pressure gas safety inspection, auditing and verification •Responsible Care Activities: Structures 	P158 P184
Remuneration and Incentives			
51	Remuneration policies for the highest governance body and senior executives	<ul style="list-style-type: none"> •Corporate governance: Compensation System for Directors, Audit & Supervisory Board Members, and Executive Officers 	P163
52	Process for determining remuneration	<ul style="list-style-type: none"> •Corporate governance: Compensation System for Directors, Audit & Supervisory Board Members, and Executive Officers 	P163
53	How stakeholders' views are sought and taken into account regarding remuneration	<ul style="list-style-type: none"> •Corporate governance: Compensation System for Directors, Audit & Supervisory Board Members, and Executive Officers 	P163
54	Ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country	–	–
55	Ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country	–	–

ETHICS AND INTEGRITY

Indicator	Description	Relevant Sections in Data Book	
56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	<ul style="list-style-type: none"> •Kao's Approach to Sustainability: Philosophy •Putting the Kao Corporate Philosophy into practice •Integrity: Structures/Mid- to long-term targets •Integrity: Deployment of the BCG revision and other compliance-related rules 	P6 P109-112 P114-115 P117
57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines	<ul style="list-style-type: none"> •Integrity: Structures/Mid- to long-term targets •Integrity: Establishment and operation of compliance hotlines 	P114-115 P118
58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	<ul style="list-style-type: none"> •Integrity: Structures/Mid- to long-term targets •Integrity: Establishment and operation of compliance hotlines •Integrity: Implementing divisional "self-patrols" 	P114-115 P118 P175

SPECIFIC STANDARD DISCLOSURES

Indicator	Description	Relevant Sections in Data Book
DMA	(DMA: Disclosures on Management Approach) a. Report why the Aspect is material. Report the impacts that make this Aspect material b. Report how the organization manages the material Aspect or its impacts c. Report the evaluation of the management approach, including <ul style="list-style-type: none"> •The mechanisms for evaluating the effectiveness of the management approach •The results of the evaluation of the management approach •Any related adjustments to the management approach Include all DMAs for General Aspects and Specific Aspects	<ul style="list-style-type: none"> •“Kao’s approach” in each section

ECONOMIC

Indicator	Description	Relevant Sections in Data Book
ASPECT: ECONOMIC PERFORMANCE		
EC1	Direct economic value generated and distributed	<ul style="list-style-type: none"> •Investor Relations on the Kao website (external link)
EC2	Financial implications and other risks and opportunities for the organization’s activities due to climate change	<ul style="list-style-type: none"> •CO₂: Social issues and Kao’s approach
EC3	Coverage of the organization’s defined benefit plan obligations	<ul style="list-style-type: none"> •Investor Relations on the Kao website (external link)
EC4	Financial assistance received from government	–
ASPECT: MARKET PRESENCE		
EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	–
EC6	Proportion of senior management hired from the local community at significant locations of operation	–
ASPECT: INDIRECT ECONOMIC IMPACTS		
EC7	Development and impact of infrastructure investments and services supported	<ul style="list-style-type: none"> •Environmental communication: Fifth year of water conservation campaign in cooperation with the Chinese government •Corporate citizenship activities: Overview •Corporate citizenship activities: Education •Corporate citizenship activities: Community
EC8	Significant indirect economic impacts, including the extent of impacts	–
ASPECT: PROCUREMENT PRACTICES		
EC9	Proportion of spending on local suppliers at significant locations of operation	–

ENVIRONMENTAL

Indicator	Description	Relevant Sections in Data Book
ASPECT: MATERIALS		
EN1	Materials used by weight or volume	<ul style="list-style-type: none"> •Packaging: Specific initiatives •Product lifecycle and environmental impact
EN2	Percentage of materials used that are recycled input materials	<ul style="list-style-type: none"> •Waste: Policies •Waste: Promoting efforts to reduce waste •Packaging: Specific initiatives
ASPECT: ENERGY		
EN3	Energy consumption within the organization	<ul style="list-style-type: none"> •CO₂: 2016 results •CO₂: Efforts in development, manufacturing and sales •Product lifecycle and environmental impact
EN4	Energy consumption outside of the organization	–
EN5	Energy intensity	<ul style="list-style-type: none"> •CO₂: 2016 results
EN6	Reduction of energy consumption	<ul style="list-style-type: none"> •CO₂: 2016 results
EN7	Reductions in energy requirements of products and services	<ul style="list-style-type: none"> •CO₂: 2016 results
ASPECT: WATER		
EN8	Total water withdrawal by source	<ul style="list-style-type: none"> •Water: Policies •Water: 2016 results
EN9	Water sources significantly affected by withdrawal of water	<ul style="list-style-type: none"> •Water: Policies
EN10	Percentage and total volume of water recycled and reused	–

ASPECT: BIODIVERSITY			
EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Not applicable	Not applicable
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	<ul style="list-style-type: none"> •Biodiversity: Social issues and Kao's approach/Policies •Biodiversity: Collaboration with stakeholders •Biodiversity: Promotion of biodiversity conservation activities at each site 	P52 P53 P54
EN13	Habitats protected or restored	Not applicable	Not applicable
EN14	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	–	–
ASPECT: EMISSIONS			
EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	<ul style="list-style-type: none"> •CO₂: Policies •CO₂: 2016 results •Product lifecycle and environmental impact 	P24 P27 P63
EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	<ul style="list-style-type: none"> •CO₂: Policies •CO₂: 2016 results •Product lifecycle and environmental impact 	P24 P27 P63
EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	<ul style="list-style-type: none"> •CO₂: Policies •CO₂: 2016 results •CO₂: Efforts in distribution •CO₂: Efforts during use •CO₂: Efforts in disposal and recycling •Packaging: Reduce: Reducing packaging materials •Product lifecycle and environmental impact 	P24 P27 P31 P32 P32 P61 P63
EN18	Greenhouse gas (GHG) emissions intensity	•CO ₂ : 2016 results	P26
EN19	Reduction of greenhouse gas (GHG) emissions	•CO ₂ : 2016 results	P26
EN20	Emissions of ozone-depleting substances (ODS)	–	–
EN21	NO _x , SO _x , and other significant air emissions	<ul style="list-style-type: none"> •Chemical substances: Emission Management of Chemicals •Product lifecycle and environmental impact 	P50-51 P63
ASPECT: EFFLUENTS AND WASTE			
EN22	Total water discharge by quality and destination	<ul style="list-style-type: none"> •Water: 2016 results •Product lifecycle and environmental impact 	P37 P63
EN23	Total weight of waste by type and disposal method	<ul style="list-style-type: none"> •Waste: 2016 results •Product lifecycle and environmental impact 	P56 P63
EN24	Total number and volume of significant spills	•Water: Efforts in development, manufacturing and sales	P38
EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	•Waste: 2016 results	P56
EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff	<ul style="list-style-type: none"> •Water: Policies •Water: Efforts in development, manufacturing and sales 	P34 P38
ASPECT: PRODUCTS AND SERVICES			
EN27	Extent of impact mitigation of environmental impacts of products and services	<ul style="list-style-type: none"> •CO₂: Efforts during use •Water: Efforts during use •Biodiversity: Understanding relationships between business and biodiversity •Waste: Social issues and Kao's approach •Packaging: Social issues and Kao's approach/Policies/Mid- to long-term targets •Packaging: Specific initiatives •Communication with corporate customers (Chemical Business): Kao products that contribute to the conservation of the environment 	P32 P39 P54 P55 P59-60 P61-62 P94
EN28	Percentage of products sold and their packaging materials that are reclaimed by category	–	–
ASPECT: COMPLIANCE			
EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	•Water: Efforts in development, manufacturing and sales	P38
ASPECT: TRANSPORT			
EN30	Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce	<ul style="list-style-type: none"> •CO₂: Policies •CO₂: 2016 results •CO₂: Efforts in distribution •Product lifecycle and environmental impact 	P24 P27 P31 P63
ASPECT: OVERALL			
EN31	Total environmental protection expenditures and investments by type	•Environmental accounting	P65-66

ASPECT: SUPPLIER ENVIRONMENTAL ASSESSMENT			
EN32	Percentage of new suppliers that were screened using environmental criteria	–	–
EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	<ul style="list-style-type: none"> •CO₂: Efforts in raw materials procurement •Water: Efforts in raw materials procurement •Biodiversity: Understanding relationships between business and biodiversity •Waste: Collaboration with stakeholders •Waste: Promoting efforts to reduce waste •Sustainable and responsible procurement 	P29 P38 P54 P57 P58 P123-130
ASPECT: ENVIRONMENTAL GRIEVANCE MECHANISMS			
EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	Not applicable	Not applicable

SOCIAL

Labor Practices and Decent Work

Indicator	Description	Relevant Sections Data Book	
ASPECT: EMPLOYMENT			
LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	•Promoting diversity & inclusion: Support for the active utilization of diverse human capital	P137
LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	–	–
LA3	Return to work and retention rates after parental leave, by gender	•Promoting diversity & inclusion: Realization of diverse work patterns	P139
ASPECT: LABOR/MANAGEMENT RELATIONS			
LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	–	–
ASPECT: OCCUPATIONAL HEALTH AND SAFETY			
LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	–	–
LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	<ul style="list-style-type: none"> •Occupational safety and health: 2016 targets and results •Occupational safety and health: Status of occupational accident occurrences •Process safety and disaster prevention: 2016 targets and results 	P151-152 P154 P156
LA7	Workers with high incidence or high risk of diseases related to their occupation	–	–
LA8	Health and safety topics covered in formal agreements with trade unions	–	–
ASPECT: TRAINING AND EDUCATION			
LA9	Average hours of training per year per employee by gender, and by employee category	–	–
LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	•Kao's approach: Education and promotion	–
LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	–	–
ASPECT: DIVERSITY AND EQUAL OPPORTUNITY			
LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	<ul style="list-style-type: none"> •Promoting diversity & inclusion: Support for the active utilization of diverse human capital •Promoting diversity & inclusion: Promoting better understanding of disability, and promoting the employment of persons with disabilities 	P137 P138
ASPECT: EQUAL REMUNERATION FOR WOMEN AND MEN			
LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	–	–
ASPECT: SUPPLIER ASSESSMENT FOR LABOR PRACTICES			
LA14	Percentage of new suppliers that were screened using labor practices criteria	–	–
LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	<ul style="list-style-type: none"> •Sustainable and responsible procurement: Policies •Sustainable and responsible procurement: Mid- to long-term targets •Sustainable and responsible procurement: Partnering with our suppliers 	P123 P125 P129
ASPECT: LABOR PRACTICES GRIEVANCE MECHANISMS			
LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	Not applicable	Not applicable

Human Rights

Indicator	Description	Relevant Sections in Data Book	
ASPECT: INVESTMENT			
HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	–	–
HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	•Human rights initiatives: Mid- to long-term targets	P121
ASPECT: NON-DISCRIMINATION			
HR3	Total number of incidents of discrimination and corrective actions taken	–	–
ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING			
HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	–	–
ASPECT: CHILD LABOR			
HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	–	–
ASPECT: FORCED OR COMPULSORY LABOR			
HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	–	–
ASPECT: SECURITY PRACTICES			
HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations	–	–
ASPECT: INDIGENOUS RIGHTS			
HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	Not applicable	Not applicable
ASPECT: ASSESSMENT			
HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	•Human rights initiatives: Process of human rights due diligence	P122
ASPECT: SUPPLIER HUMAN RIGHTS ASSESSMENT			
HR10	Percentage of new suppliers that were screened using human rights criteria	–	–
HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	•Human rights initiatives: Process of human rights due diligence •Sustainable and responsible procurement	P122 P123-130
ASPECT: HUMAN RIGHTS GRIEVANCE MECHANISMS			
HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	•Integrity: Establishment and operation of compliance hotlines	P118

Society

Indicator	Description	Relevant Sections in Data Book	
ASPECT: LOCAL COMMUNITIES			
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	•Chemical substances: SAICM Promotion Committee activities	P46
SO2	Operations with significant actual and potential negative impacts on local communities	Not applicable	Not applicable
ASPECT: ANTI-CORRUPTION			
SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	–	–
SO4	Communication and training on anti-corruption policies and procedures	•Integrity: Structures •Integrity: Deployment of the BCG revision and other compliance-related rules	P114 P117
SO5	Confirmed incidents of corruption and actions taken	Not applicable	Not applicable
ASPECT: PUBLIC POLICY			
SO6	Total value of political contributions by country and recipient/beneficiary	•Integrity: Deployment of the BCG revision and other compliance-related rules	P117

ASPECT: ANTI-COMPETITIVE BEHAVIOR			
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes a. Report the total number of legal actions pending or completed during the reporting period regarding anti-competitive behavior and violations of anti-trust and monopoly legislation in which the organization has been identified as a participant b. Report the main outcomes of completed legal actions, including any decisions or judgments	Not applicable	Not applicable
ASPECT: COMPLIANCE			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	<ul style="list-style-type: none"> •Water: Efforts in development, manufacturing and sales •Integrity: Response to compliance violations and serious violations in 2016 	P38 P118
ASPECT: SUPPLIER ASSESSMENT FOR IMPACTS ON SOCIETY			
SO9	Percentage of new suppliers that were screened using criteria for impacts on society	Not applicable	Not applicable
SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	<ul style="list-style-type: none"> •Sustainable and responsible procurement: Policies •Sustainable and responsible procurement: Mid- to long-term targets •Sustainable and responsible procurement: Partnering with our suppliers 	P123 P125 P129
ASPECT: GRIEVANCE MECHANISMS FOR IMPACTS ON SOCIETY			
SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	Not applicable	Not applicable

Product Responsibility

Indicator	Description	Relevant Sections in Data Book	
ASPECT: CUSTOMER HEALTH AND SAFETY			
PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	<ul style="list-style-type: none"> •Product quality management: Specific initiatives •Universal Design: Specific initiatives 	P77 P81
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	–	–
ASPECT: PRODUCT AND SERVICE LABELING			
PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements	<ul style="list-style-type: none"> •Kao's initiatives for the environment: Policies •Kao's initiatives for the environment: 2016 results •Communication with consumers: Structures •Communication with consumers: Mid- to long-term targets •Communication with consumers: Specific initiatives 	P21 P22 P84 P85 P86
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	Not applicable	Not applicable
PR5	Results of surveys measuring customer satisfaction	–	–
ASPECT: MARKETING COMMUNICATIONS			
PR6	Sale of banned or disputed products	Not applicable	Not applicable
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Not applicable	Not applicable
ASPECT: CUSTOMER PRIVACY			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Not applicable	Not applicable
ASPECT: COMPLIANCE			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Not applicable	Not applicable

ISO 26000 content index

Core subjects and issues		Pages of the Sustainability Data Book 2017	
6.2	Organizational governance	<ul style="list-style-type: none"> •CEO Message •Kao's Approach to Sustainability •Communication with consumers •Communication with corporate customers •Sustainable and responsible procurement •Growing together with our employees •Human capital cultivation: helping every employee maximize their potential •Governance 	P3 P6-12 P83-86 P87-98 P123-130 P131-132 P133-134 P159-182
6.3	Human rights	<ul style="list-style-type: none"> •Human rights initiatives •Kao Business Conduct Guidelines (external link) 	P120-122 –
6.3.3	Due diligence	<ul style="list-style-type: none"> •Kao's Approach to Sustainability •Integrity •Human rights initiatives •Sustainable and responsible procurement •Promoting diversity & inclusion 	P6-12 P113-119 P120-122 P123-130 P135-139
6.3.4	Human rights risk situations	<ul style="list-style-type: none"> •Human rights initiatives •Promoting diversity & inclusion 	P120-122 P135-139
6.3.5	Avoidance of complicity	<ul style="list-style-type: none"> •Human rights initiatives •Sustainable and responsible procurement •Promoting diversity & inclusion 	P120-122 P123-130 P135-139
6.3.6	Resolving grievances	<ul style="list-style-type: none"> •Integrity •Communication with consumers 	P113-119 P83-86
6.3.7	Discrimination and vulnerable group	<ul style="list-style-type: none"> •Corporate citizenship activities •Promoting diversity & inclusion 	P99-108 P135-139
6.3.8	Civil and political rights	<ul style="list-style-type: none"> •Integrity •Promoting dialogue with employees 	P113-119 P140-142
6.3.9	Economic, social, and cultural rights	<ul style="list-style-type: none"> •Corporate citizenship activities •Integrity •Promoting diversity & inclusion 	P99-108 P113-119 P135-139
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KaO

Enriching lives, in harmony with nature.

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