

## Kao's approach

Kao, in aiming for continuous growth and to become "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 the corporate culture, through such activities as continuous education and training in regard to the Kao Business Conduct Guidelines (BCG), and appropriate responses to communications received via the compliance hotlines.

## Kao's creating value to address social issues

To reduce the potential of operational risks and ensure fair-minded dealings, we are endeavoring to realize the commitment to the principle of integrity 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.

### Contributions to the SDGs



## Policies

At Kao, we uphold the principle of integrity, passed down from our founder, as one of the core values of our corporate philosophy, the Kao Way. Integrity means to behave lawfully and ethically and conduct fair and honest business activities. We regard 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

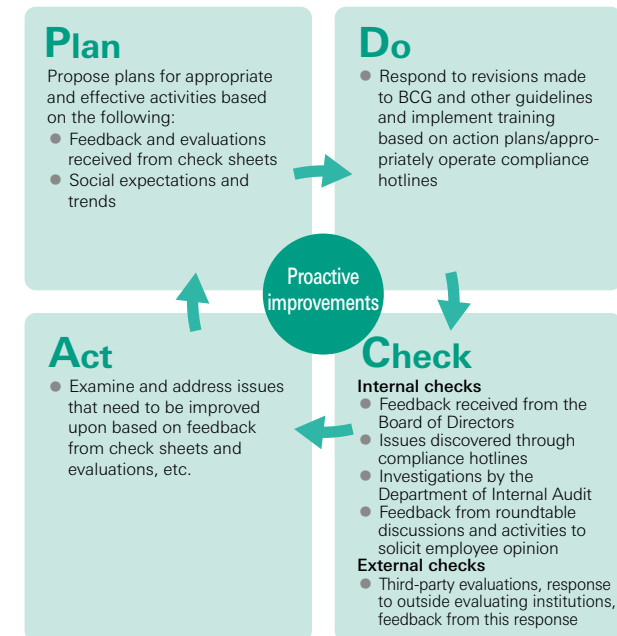
We conduct compliance promotion activities based on mid- to long-term and annual activity plans, including:

1. Regular revision of the Kao Business Conduct Guidelines (BCG) and other internal compliance-related guidelines.
2. Implementation of compliance education activities.
3. Improvement and operation of compliance hotlines.

We verify 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 (activities that involve listening to employees' opinions and compliance roundtables). We also regularly receive advice not only from an external consulting firm after evaluation of our compliance framework but also from external evaluation companies after submission of our answers to their questionnaires.

### PDCA cycle for compliance activities



## Framework

We have 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 implements the following once every six months:

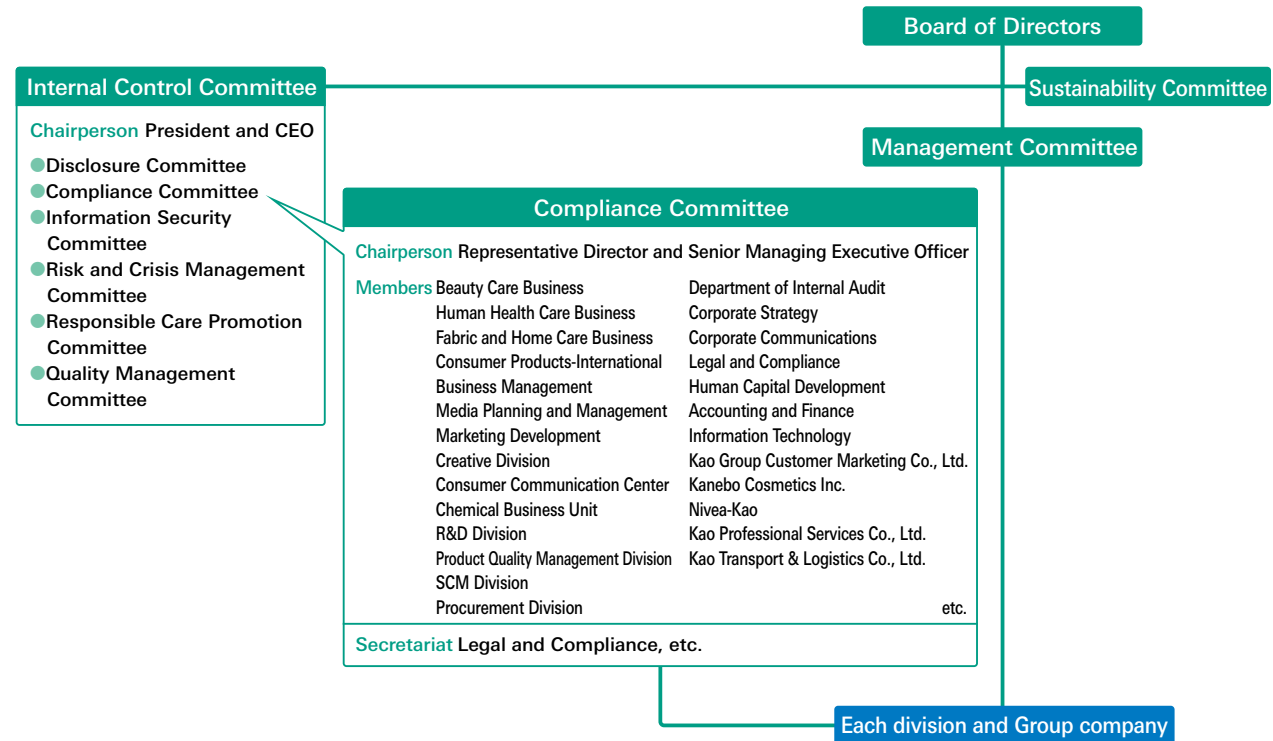
1. Discusses the establishment and revision of the Kao Business Conduct Guidelines (BCG) and other internal compliance-related guidelines.
2. Discusses the holding of educational and awareness-raising activities to promote the spread and establishment of corporate ethics both inside and outside Japan.
3. Monitors the operation of the compliance hotlines and the responses to communications received via the compliance hotlines.

The Committee also reports on other important matters such as revisions of rules and regulations, etc., and 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 within and outside Japan. They also consider new approaches to promoting 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 framework



\*Organization names as of December 2017.

## Auditing and monitoring framework

We conduct auditing and monitoring of compliance through the internal audit and the monitoring of activities in a variety of formats.

## Annual confirmation

Once a year, confirmation is performed of the current status of the submission of reports to the Compliance Committee regarding matters pertinent to the Guidelines for Avoiding Conflicts of Interest and Anti-Bribery Guidelines, with respect to company officers and employees both inside and outside Japan.

In addition, the utilization status of anti-bribery checklists used when selecting new cross-border distributors or renewing contracts with existing cross-border distributors is verified annually.

## 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.

## Activities listening to employee's opinions

The Compliance Committee Secretariat creates opportunities for dialogue with employees of Kao Group companies inside and outside Japan when visiting them to conduct seminars and on other occasions. Comments concerning current compliance activities are received, along with, requests and proposals for improvements.

## Employee opinion survey

The Kao Group monitors the status of compliance awareness among employees through the company-wide opinion survey *Find*, which is conducted every other year.

A survey was also conducted in 2016 (within Japan) and 2017 (outside Japan) on specific behaviors, awareness and level of permeation regarding compliance activities.

## Self-check exercises at seminars

Participants in compliance seminars for mid-career employees completed self-check exercises on their compliance awareness. In 2017, a total of 46 employees participated in these exercises.



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Conservation

Community

Corporate Culture

Governance

## Mid- to long-term targets and performance

### Mid- to long-term targets

1. Continuous enhancement of BCG educational and awareness-raising activities
2. Appropriate operation of the compliance hotlines
3. Identify issues and explore and implement improvement measures based on social and internal expectations and other activities for monitoring and measuring effectiveness

### 2018 targets

- Enhancement of framework for compliance with laws and regulations to reduce serious compliance risks
- Reviewing the need for revision of the BCG for 2019
- Continuity of compliance education and training  
Particular emphasis on embracing the idea of thoroughly instilling integrity
- Improvement of responses to communications received via compliance hotlines
- Continued activities that involve listening to employees' opinions

### Performance in 2017

#### 1. Continuous enhancement of BCG educational and awareness-raising activities

##### Deployment of the BCG based on social expectations

The Kao Business Conduct Guideline Casebook, which outlines key points to note regarding BCG and presents case studies of BCG implementation, was revised in 2017. The 26 case studies (including common case studies inside and outside Japan) were reviewed, and were presented in an easy-to-understand format supported by illustrations.

##### BCG permeation strategies

###### ① Educational activities for employees

To deepen employee understanding of the BCG and other compliance-related rules and regulations, we hold classroom-based training for new employees, newly

appointed managers, managers working in Japan, and Group company employees (including managers) outside Japan. In addition, an annual BCG refresher test is held to check knowledge of BCG content.

For 2017, specific targets were set for the following three items. The results achieved are outlined below:

**Targets and Results of BCG permeation measure**

| BCG permeation measures                                 | Targets                             | Results                                    |
|---|-------------------------------------|--|
| BCG refresher test                                      | 100%                                | 97.1%<br>(completed 36,270/37,363 targets) |
| Compliance training for Kao executives working in Japan | Targets (cumulative) for 2018: 100% | 72.2%<br>(completed 1,182/1,637 targets)   |
| Training for managers working outside Japan             | Targets (cumulative) for 2019: 100% | 34.0%<br>(completed 474/1,393 targets)     |

###### ② Implementation of Compliance Awareness Month



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###### 2. Appropriate operation of the compliance hotlines



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### Performance in 2017

#### 3. Identify issues and explore and implement improvement measures based on social and internal expectations and other activities for monitoring and measuring effectiveness

##### Annual confirmation

Outside Japan, the Compliance Committee conducted annual confirmations of the submission of reports under the Guidelines for Avoiding Conflicts of Interest and the Anti-Bribery Guidelines. In Japan, annual confirmation of the compliance activities including the divisions and entities that have no compliance committee member was performed.

##### Employee opinion survey

A survey on specific compliance behaviors and compliance awareness (comprising six questions), which was conducted in 2016 for employees of Group

companies in Japan, and conducted in 2017, for employees of Group companies outside Japan. As a result of the survey, we were able to confirm the status of helpcard and BCG booklet retention by employees of various functions, reliability of the compliance hotline, and atmosphere (easiness of communication) of their own organizations, and we implemented necessary remediation measures. We will continue to take advantage of opportunities such as revision of the BCG to assess employee perception on a periodic basis in the future.

##### Activities that involve listening to employee's opinions

Opportunities for dialogue with employees from 16 departments and entities, including Group companies inside and outside Japan, were arranged, and we collected employee opinions with regard to existing

initiatives, proposals for new initiatives, and other issues.

##### Compliance promotion activities based on third-party evaluations

We reexamined our mid- to long-term activity plans, and continued to implement activities aimed at enhancing the permeation of compliance awareness, in order to improve evaluations from external consultants of our compliance program from the previous year.

Our challenges were confirmed and these were reflected in annual plan for 2018, 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 every year, as well as the Ethisphere Institute.

### Collaboration with stakeholders

- In June 2017, at the request of the Ministry of Education, Culture, Sports, Science and Technology (MEXT), the Executive Officer of the Legal and Compliance Division gave a lecture on the Kao Group's compliance activities at an expert meeting held to consider strategies for ensuring thorough implementation of compliance requirements in relation to re-employment.
- The Executive Officer of the Legal and Compliance Division gave a lecture on the role of top management at a meeting to discuss compliance promotion initiatives in companies doing business in Japan (including foreign-owned enterprises) during an Executive Roundtable in Tokyo hosted by the Ethisphere Institute, a U.S. corporate ethics think tank, in November 2017.

Conservation

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Our initiatives

Implementation of Compliance Awareness Month

At Kao, we have designated every October as Compliance Awareness Month, with the aim of encouraging employees to view compliance as something that is directly relevant to all of them. During Compliance Awareness Month, various activities are held to foster effective permeation of compliance awareness. Compliance Awareness Month was first held in Japan in 2015. In 2016, the scope of implementation was expanded to include countries outside Japan.

During Compliance Awareness Month in 2017, a message from the Compliance Committee chairman was disseminated via the company intranet and/or displayed as posters. Compliance messages were also created by regional presidents and presidents of individual companies. In addition, case studies were administered, and BCG refresher tests were administered to check knowledge of the BCG. Compliance logo stickers were distributed to those employees who completed the test as certificates of completion.

Comments from employees included: "Employees were really impressed to see messages drafted by their president!" and "While we should always act with integrity, I like to have a chance to reflect on Compliance once a year and hope this will be continued."



The Compliance Awareness Month poster is designed and displayed in 19 languages

Revision of the BCG Casebook and deployment of other compliance-related rules

The Kao Business Conduct Guidelines (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, English and 17 other languages.

Reflecting the approach embodied by the BCG, we prohibit giving and receiving of bribes regardless of the identity of the other party and ban facilitation payments in the Kao Anti-Bribery Guidelines. We also prohibit the making of political donations in the BCG and in Kao's Donation Guidelines. Moreover, the Kao Anti-Bribery Guidelines, which refer the approval procedures for giving and receiving of entertainment and gifts and notification procedures relating to the invitation of government officials, have been adopted for each region and company including Kao Group companies outside Japan.

Besides the measures noted above, we have 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 2017:

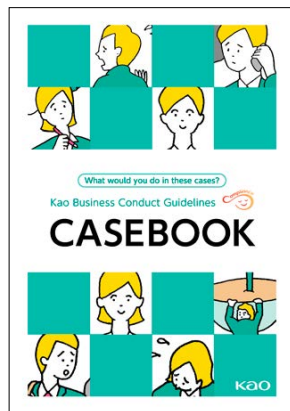
1. Revision of the BCG Casebook (in July 2017).

The main content of the revisions was as follows:

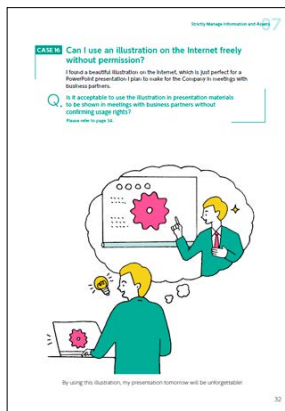
① 26 cases were revised or replaced to reflect situations that are more realistic and relatable.

② Introduction of fictitious characters that make an appearance throughout the BCG Casebook as well as colorful illustrations, making the book more enjoyable to read.

These were compiled in Japanese, English and 17 other languages, and distributed to individual Kao Group companies.



The Kao Business Conduct Guideline Casebook



2. An Anti-Bribery Checklist has been rolled out to be used when selecting an intermediary or an agent or when renewing a contract with them. This is in addition to the Anti-Bribery Checklist for Distributor Selection. Practical utilization of the Checklist for verifying circumstances in particular situations has already begun.

3. It was verified that no political contributions were made in 2017.

## Establishment and operation of the compliance hotlines

### Kao Group operational policy

Depending on the needs of each country and region, Kao Group companies have established and operate either 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 identify themselves to facilitate proper investigation.

In 2017, there were 285 calls to the hotlines of the Kao Group, including companies outside Japan. About 80% of the calls were of a minor nature, which were ultimately resolved or closed through responses from the secretariat or in face-to-face consultations with the caller. The remaining 20%

were resolved by measures such as warnings to the relevant persons based on investigations of the matters in question in face-to-face consultations with the relevant persons. There were 10 cases which resulted in disciplinary action which resulted in termination of employment.

Of these, there was one case that was serious enough to affect the company's business operations (For more details, see "Response to compliance violations, and violations in 2017" on the next page). In response to the above, measures have been taken to strengthen follow-up of the handling of consultation cases, and adjustments have been made to the implementation systems.

Further breakdown of the reports reveals that items related to harassment, including sexual harassment, abuse of authority and bullying, represented roughly 30% of the total, while items falling outside of the scope of compliance issues, including those related to miscommunication at workplaces, working conditions and employment, represented around 40%. Together, these two categories comprised approximately 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 lawyers and clinical psychologists. Internal hotlines and external hotlines operated by the 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 Kao Group companies in countries outside Japan and are available in the caller's own language 24 hours a day, 365 days a year.

In 2017, a new hotline was set up for a chemical company in Europe which joined the group.



Poster for the Integrity Line at Kao Chimigraf

## Response to compliance violations, and violations in 2017

We uphold a principle of disclosing violations of laws and regulations that occur in relation to the Kao Group's business operations.\*

\*However, in cases where there are legal or contractual confidentiality obligations, a risk of negatively impacting the public interest, the need to take privacy into consideration or other similar limiting factors, the violation may not be made public.

With respect to the Kao Group's business operations in 2017, some aspects of cosmetics production at the Odawara Plant were found not to be in conformity with the requirements of Japan's Fire Service Act, and the production operations in question were halted. The situation has already been remedied in accordance with guidance received from the relevant authorities. Product quality and safety were not affected. Information about this incident was made public in a News Release issued on September 28, 2017.

There were a total of 10 cases globally which resulted in persons leaving their positions (including resignation under instruction). These included cases involving fraudulent behavior such as theft and embezzlement, sexual harassment, serious traffic violations, and other offenses. There were cases at Group companies outside Japan involving embezzlement of company assets by multiple employees that necessitated a renewed effort to thoroughly implement compliance activities. All other cases were at the level of individual employees, and none was serious enough to cause any major harm to the company's business operation.

In response to these cases, efforts have been made to thoroughly permeate the principle of integrity, through the dissemination of messages from top management aimed at preventing recurrence and through internal educational activities.

## Measures aimed at ensuring full compliance in daily work

We assign employees trained as "laws and regulations experts" to monitor trends in enforcement and amendments to laws and regulations related to its business, and to share the necessary information with the internal relevant persons and educate them as needed with 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 2017 for which laws and regulations experts conducted relevant activities

- Act on Safety Assurance and Quality Improvement of Feeds
- Agricultural Chemicals Control Act, etc.

### Number of laws for which laws and regulations experts have been appointed and the number of internal regulations registered as of the end of December 2017

Number of laws for which laws and regulations experts have been appointed\*: 342 laws in total, with 71 laws and regulations experts

Number of internal regulations registered: 450

\*Appointment of laws and regulations experts

Each division independently appoints laws and regulations experts for specified laws and regulations.



## Twelve consecutive years on the World's Most Ethical Companies list

In February 2018, Kao was named to the list of the World's Most Ethical Companies 2018 by the U.S. think-tank Ethisphere Institute. We have been on this list for 12 straight years, since the award's inception in 2007. We are the only Japanese company, and the only manufacturer of fast-moving consumer goods and chemicals, to be honored in all 12 years.

Selection of companies for the list is based on the evaluation of five factors:

- ① Corporate Ethics and Compliance Program;
- ② Corporate Citizenship and Responsibility;
- ③ Culture of Ethics;
- ④ Governance; and
- ⑤ Leadership, Innovation and Reputation.

This recognition reflects the fact that the spirit of integrity as passed down from our founder continues to be implemented by all Kao Group members in day-to-day operations through practice of the Kao Way and the BCG.



Awards ceremony