

Kao's approach

Kao, in aiming for continuous growth and to become “a company with a global presence,” operates lawfully and ethically, conducting fair and honest business activities while responding to changes in society. Kao will strive to foster a compliance mindset in all group employees and further improve its healthy corporate culture through such activities as ongoing 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

Social issues we are aware of

There have been many reports of data falsification and other improprieties in the manufacturing industry in recent years, leading to a general distrust of the manufacturing industry. As a consequence, *Yoki-Monozukuri* that complies with laws and ethics is becoming increasingly necessary to maintaining and improving our competitiveness. In addition, in many cases the improprieties went on for years without being viewed as problematic. We see creation of an open workplace atmosphere, in which discovered improprieties are immediately reported to management and an appropriate response is taken, as a key issue.

There is also a growing number of cases of power harassment, due in part to an increasingly diverse workforce and managers with outdated values, as well as sexual harassment, marked by a lack of consideration for the other party. We believe that to prevent these instances and achieve social progress, it is important to create efficient and highly productive workplaces that allow all people to work on an equal standing.

Kao's creating value

We see our mission as contributing to society through

Yoki-Monozukuri, with our business activities based on our value of Integrity (to behave lawfully and ethically and conduct fair and honest business activities) handed down from our founder. We will continue to implement *Yoki-Monozukuri* that complies with laws and ethical principles.

We are also creating workplaces with an open atmosphere that allow talented human capital to fully demonstrate their abilities on an equal standing.

Risks related to realization of our vision by 2030

As competition intensifies globally, there is concern of growing temptation to commit impropriety, including factors such as difficulty in achieving product differentiation, meeting product launch schedules and delivery timelines, and increasing profit. The risk of harassment from the generational gap in values and growing employee diversity is also increasing.

Opportunities related to realization of our vision by 2030

As a result of conducting our business with Integrity as one of our most important values, we are highly regarded by society in terms of sustainability and

compliance. This leads to increasing trust on the part of consumers, shareholders and other stakeholders in our products and our company, and also makes it easier for us to hire and retain talented human capital.

Contributions to the SDGs



Policies

We regard our value to Integrity as the starting point of compliance, and promote it as a foundation for earning the respect and trust of all stakeholders.

To ensure the greater efficacy of the Kao Business Conduct Guidelines (BCG) that embody Integrity, we are implementing activities focused on reducing serious compliance risks, and activities designed to create an open workplace atmosphere that allows discovered improprieties to be immediately reported to management and an appropriate response taken.

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 affiliated companies.

This committee meets every six months to review the following activities and devise promotional measures to mitigate serious compliance risks and ensure Integrity.

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 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.

Necessary amendments to our regulations are also proposed and an annual activities report made to the Board of Directors.

The Compliance Committee has also installed a secretariat led by the Compliance Department. At the secretariat meeting held each month, members of the secretariat confirm and review the reasonableness of responses to inquiries made to hotlines both within and outside Japan. They also draft and implement plans for specific activities in accordance with decisions by the Compliance Committee.

In addition, a summary of the inquiries and communications received is reported to the

Management Committee on a quarterly basis, and related activities are reported to the Board of Directors each year. We monitor and evaluate these activities and continue to improve them using the PDCA (plan, do, check and act) cycle.

Audits and monitoring

In addition to internal audits, we monitor activities using a variety of formats and are strengthening compliance.

Annual confirmation

Once a year, we confirm the submission of reports to the Compliance Committee secretariat regarding matters pertinent to the Guidelines for Avoiding Conflicts of Interest and the Anti-Bribery Guidelines with respect to company officers and employees.

In addition, we verify the utilization status of the Anti-Bribery Checklist used when selecting new cross-border distributors and new intermediaries or renewing contracts with existing ones.

Internal Audits

Regular audits by Audit and Supervisory Board Members and an operations audit are conducted for all companies and divisions of the group, which include verifying conduct on compliance-related items based on guidelines related to entertaining, gift-giving and celebration and condolence packages.

Activities that involve listening to employees' opinions

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

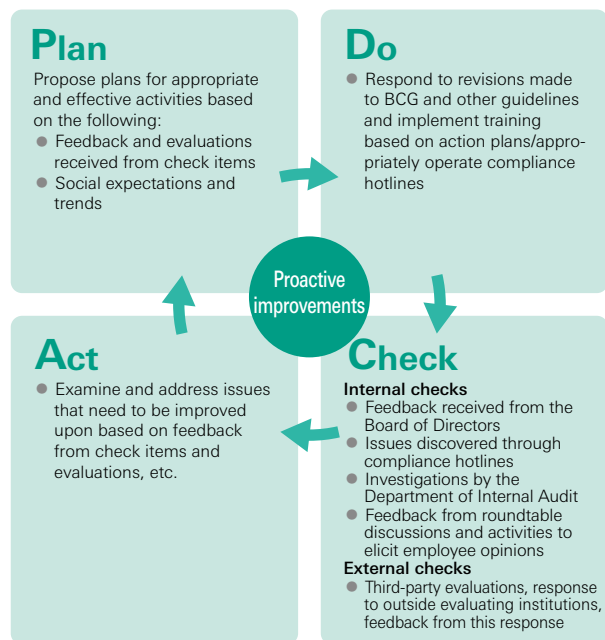
Employee opinion survey

The group monitors the extent of compliance awareness among employees through the companywide opinion survey *Find*, which is conducted every other year.

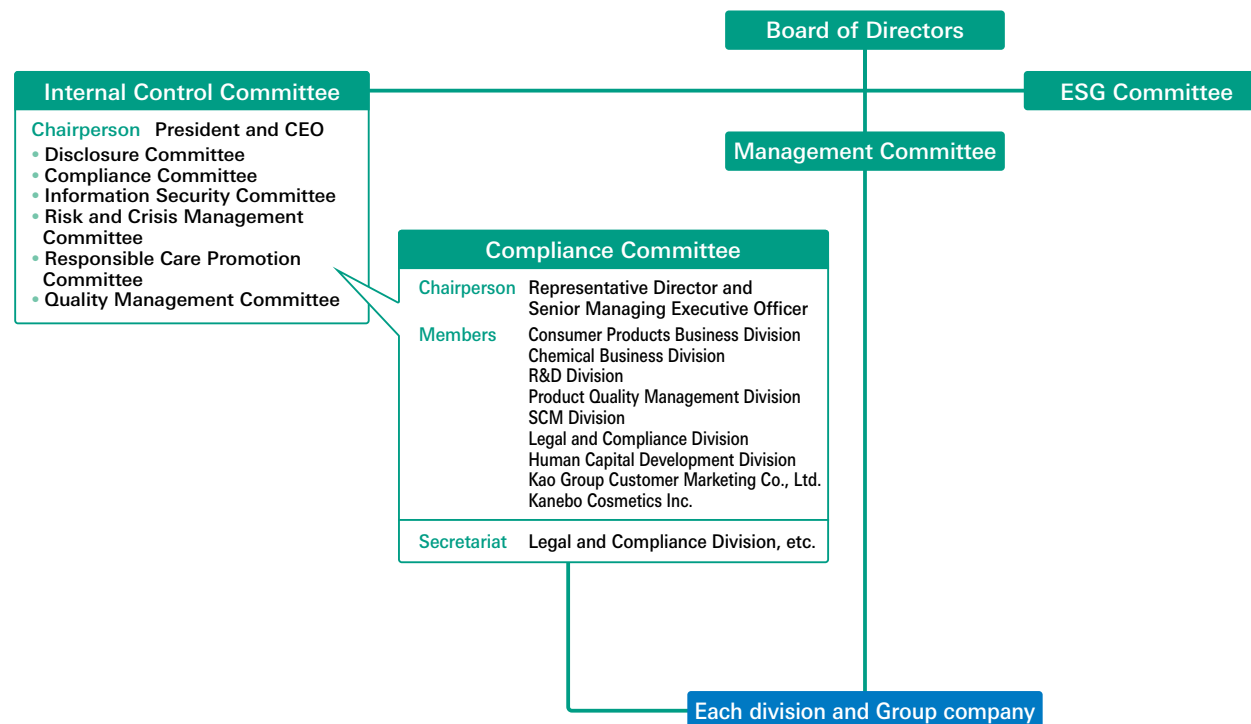
A survey is also conducted every other year on specific behaviors, awareness and the extent of establishment of compliance.

Kao's approach

Kao's Compliance Activities



Compliance promotion framework



* As of December 2018.

Collaboration with stakeholders

- In March 2018, the Senior Vice President of the Legal and Compliance Division gave a lecture on the group's use of compliance hotlines and future issues at a symposium on whistleblowing organized by the Tokyo San Bengoshikai, bar associations.

- In April 2018, the Senior Vice President of the Legal and Compliance Division participated as a panelist from the position of a corporate executive in a panel discussion on the topic of "effective countermeasures for the divergence of management and the workplace and the role of Audit & Supervisory Board Members" at the National Audit & Supervisory Board Members Conference organized by the Japan Audit & Supervisory Board Members Association.

- In December 2018, the Senior Vice President of the Legal and Compliance Division led a discussion on the topic of "how the General Counsel can lead compliance and ethics" at the Tokyo Executive Ethics and Compliance Forum organized by Ethisphere Institute, a U.S.-based corporate ethics think tank.

Mid- to long-term targets and performance

Mid- to long-term targets

1. Contribute to *Yoki-Monozukuri* through a commitment to Integrity and prevent incidents of damage.
2. Minimize damage by creating workplaces with an open atmosphere that allow improprieties to be reported at an early stage and the appropriate response to be taken.
3. Maximize utilization of human capital by ensuring that people's language and conduct are considerate of the other person's position and by creating workplaces in which all people are able to work on an equal standing.

Anticipated benefits from achieving Mid- to long-term targets

Damage minimization or profit increase

- Avoid incidents of loss due to improprieties and reduced trust in Kao products.
- Minimize damage by avoiding expanding or prolonging impacts by discovering improprieties at an early stage and taking an appropriate response.
- Realize high-quality outcomes more efficiently and retain, hire and fully utilize talented human capital by creating work-friendly workplaces for employees.

Effects on society

- By preventing improprieties and realizing higher quality outcomes, provide products and services through improved *Yoki-Monozukuri* including a focus on the environment.
- Maintain and improve the trust placed in us by stakeholders starting with shareholders and society.



Targets for 2019

- Amend the Kao Business Conduct Guidelines (BCG) aimed at achieving the SDGs, conduct related awareness-building activities and develop our legal compliance structure to ensure *Yoki-Monozukuri*.
- Hold seminars by top management to create workplaces that allow all people to work on an equal standing (hold seminars outside Japan in 2019).

Performance in 2018

1. Compliance risk reduction activities

Reorganize our legal compliance structure

We identified 245 laws and ordinances that apply to our business in Japan, and monitored implementation of our compliance promotion plan for 43 key laws and ordinances among the 245. By identifying applicable laws and ordinances and codifying our plan, we were able to increase general awareness for legal compliance among related staff as well as executive officers. In 2019, we will also conduct similar measures in countries and regions outside Japan.

Reduction of risk not covered by legal compliance activities

We identified social media risks and data falsification as risks not covered by our legal compliance activities. We designated the responsible divisions and built a structure to monitor the status of implementation.



→ p. 131 Our initiatives: Activities to reduce compliance risks

2. Activities to foster and establish compliance awareness

Review for amending the Kao Business Conduct Guidelines (BCG)

We have begun the process of revising the BCG to be more effective. Various departments exchanged views and opinions in the review, and the review process itself led to improved compliance awareness. Announcement of the new BCG is scheduled in 2019, and we will also hold briefings on the amended content.



→ p. 131 Our initiatives: Review for amending the Kao Business Conduct Guidelines (BCG)

Compliance education activities

- Held discussions on compliance risk at new manager trainings (approx. 420 people).
- Held compliance trainings in Japan for employees and temporary workers led by executive officers in their own divisions (approx. 11,000 people).
- Held compliance trainings linked to trainings on the Kao Way, our corporate philosophy, in Indonesia and Spain (total of approx. 150 people).
- Held compliance trainings for all employees in Singapore (total of approx. 150 people).
- Established October as Compliance Awareness Month as in past years, displayed Compliance Awareness Month posters and communicated other information.

In 2018, we reinvented our educational materials to increase the sense of ownership over compliance. In trainings conducted in Japan especially, we observed improved awareness among individual employees after having executive officers communicate messages firsthand while talking about specific cases of compliance in their own words.



→ p. 132 Our initiatives: Compliance education/ Compliance Awareness Month

3. Compliance promotion system development

- From 2018, we began reporting to the Management Committee four times a year concerning incidents requiring special attention.
- In June 2018, we changed the law firm entrusted with our internal compliance hotlines in Japan from our advising law firm to one without a potential conflict of interest.

The above moves are designed to reduce risk by detecting compliance-related problems at an early stage and resolving them, and have created a system more conducive to receiving reports.



→ p. 133 Our initiatives: Compliance hotlines

4. External evaluations

In 2018, we were again chosen for the World's Most Ethical Companies® designation, and received recognition from the Ethisphere Institute.



→ p. 133 Our initiatives: Thirteen consecutive years on the World's Most Ethical Companies® list

Our initiatives

Activities to reduce compliance risks

We reorganized our legal compliance structure in 2018 and conducted a survey of serious compliance risks not covered by our legal compliance activities to reduce serious compliance risks.

Legal compliance structural reorganization

We reorganized our legal compliance structure to place responsibility for legal compliance with executive officers.

Specifically, with the 2017 discovery of non-conformity with the requirements of Japan's Fire Service Act, the Legal Department led a survey of laws and ordinances that apply to our business in Japan. Some 245 laws and ordinances were identified, and we decided the managing divisions for promoting compliance with them. For 43 laws and ordinances of particular importance among the 245, we drafted an annual compliance promotion plan, required a report on its implementation, and monitored compliance promotion activities.

In 2019, we will comprehensively put our legal compliance structure in Japan into operation, and plan to implement our legal compliance structure outside Japan.

Reduction of risk not covered by legal compliance activities

As a result of conducting an internal risk survey, we

identified social media risks and data falsification as serious compliance risks not covered by our legal compliance activities.

For social media risks, we established a digital risk team in September, which has begun reviewing the risk scope and response that demand attention in our business activities. For data falsification risks, we reviewed work tasks to prevent falsified data in the R&D and SCM divisions and conducted awareness-building activities.

Review for amending the Kao Business Conduct Guidelines (BCG)

The Kao Business Conduct Guidelines (BCG) embodies Integrity, one of the core values of the Kao Way, our corporate philosophy. We began amending the items and content of the BCG in 2018 to make the Guidelines more comprehensive and effective.

In light of the incorporation of the SDGs in the revised Charter of Corporate Behavior of Keidanren (Japan Business Federation) in December 2017, we also focused on the SDGs in amending the BCG. In addition, we extensively reviewed the language to make it easier to understand. Various departments exchanged views and opinions in the review, and the review process itself led to improved compliance awareness.

Announcement of the new BCG is scheduled in 2019, and we will also hold briefings on the amended content.

Deployment of the BCG Casebook and other compliance-related rules

The Kao Business Conduct Guidelines Casebook, which covers possible scenarios relating to the BCG in a Q&A format, has been compiled in Japanese, English and 17 other languages.

In addition, the BCG explicitly prohibits giving and receiving of bribes regardless of the identity of the other party and bans facilitation payments, which are payments of small amounts made to individual civil servants. Making political donations is also prohibited in the BCG and in the Donation Guidelines. Moreover, the Kao Anti-Bribery Guidelines, which describe the approval procedures and rules for giving and receiving of entertainment and gifts and notification procedures relating to the invitation of government officials, have been adopted, including at Kao Group companies outside Japan.

Besides the measures noted above, we have also proceeded with adoption at Kao Group companies both within and outside Japan of the Kao Guidelines for Avoiding Conflicts of Interest, which require approval or notification corresponding to specific situations in which there is a risk of a conflict of interest through competition, transactions, loans, personal investments and so on with the Kao Group.

Compliance education

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, and Group company employees (including managers) outside Japan. In addition, a BCG refresher test is given every other year to check knowledge of BCG content.

In 2018, we reinvented our educational materials to increase the sense of ownership over compliance based on the compliance training conducted by the Compliance Department staff.

New manager trainings

We held discussions on compliance risks at new manager trainings in Japan, where new managers from various departments exchanged views on risk factors and prevention.

Many participants offered feedback such as, "Through the discussions, I was able to think deeply about the compliance risks that could occur in our workplaces and how to prevent them, and I want to put these ideas into practice back in my workplace." (No. of participants: approx. 420)

Compliance trainings led by executive officers (Japan)

We held compliance trainings in Japan with executive officers serving as instructors for the purpose of having participants internalize Integrity and creating an open atmosphere in workplaces that allows improprieties to be reported at an early stage and appropriately dealt with.

The executive officers gave lectures on the importance of the first report when a compliance violation occurs, how to ensure your words and actions show consideration for the other party, and achieving an open atmosphere in workplaces by setting an example.

Having executive officers talk about these topics in their own words made compliance more immediate and accessible for employees. (No. of participants: approx. 11,000)

Lecture content and messages from executive officers (excerpts)

- The times are changing. Leaders must also change their awareness.
- If you are worried about something, do not hesitate to talk to the division leader about it.
- Brought up examples of cases that arose in their own divisions and what they did in response, and announced proposals to prevent recurrences.
- (To prevent harassment) Imagine that the person is a family member and reassess whether your words are appropriate.

Compliance training linked to the Kao Way

We held compliance training linked to training on the Kao Way, our corporate philosophy, in Indonesia and Spain. We held compliance training for all employees at Kao Group companies in Singapore. (No. of participants: total of approx. 300)

Compliance Awareness Month

At Kao, we have designated October as Compliance Awareness Month, with the aim of encouraging employees to view compliance as something that is directly relevant to them, and hold various activities to instill compliance awareness inside and outside Japan.

During Compliance Awareness Month in 2018, a message from the Compliance Committee chairperson was disseminated via the company intranet and displayed as posters. Posters with compliance messages were also created by regional presidents and presidents of individual companies outside Japan, and case studies were communicated.

This year, the message from the Compliance Committee chairperson was "Let's create a friendly workplace for all by using warmhearted words!" We conducted activities to realize more efficient work tasks and work-style reforms by focusing on enhanced workplace communication.



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

Compliance hotlines

Depending on the needs of each country and region, group companies have established and operate either both internal and external compliance hotlines or only external hotlines.

In operating the hotlines, after confirming the caller's needs, companies take steps to respect the individual's privacy and strive to the maximum extent possible to ensure that callers suffer no disadvantage as a result of their good-faith consultation. In principle, companies receive the caller's consent also when a third party needs to be involved.

Anonymous inquiries are accepted, but callers are encouraged to identify themselves to facilitate proper investigation.

In 2018, there were 322 calls to the hotlines of the group, including companies outside Japan. About 70% 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 30% 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. Further breakdown of the reports received reveals that items related to harassment, including sexual and power harassment, abuse of authority and bullying, represented roughly 30% of the total, while items 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

In Japan, we have established internal compliance hotlines operated by the Compliance Committee secretariat and external hotlines operated by outside lawyers and clinical psychologists. Internal hotlines and external hotlines

operated by lawyers accept reports and consultations not only from our employees but also from related parties including business partners. In June 2018, we changed the law firm for our compliance hotlines from our advising law firm to one without a conflict of interest so as to improve the neutrality of the lawyer-operated hotlines. We have updated and handed out help cards with hotline information printed on them, and displayed posters at Kao Transport & Logistics locations and contractor offices in our plants. As a result, we are receiving a rising number of calls to the hotlines.

Kao Group outside Japan

We set up the Integrity Line, operated by an outside service provider, at Kao Group companies outside Japan. The Integrity Line is able to receive calls 24 hours a day, 365 days a year in the home country language. Most Kao Group companies have established internal compliance hotlines in which the company's HR manager or other representative handles inquiries. In 2018, the Integrity Line was also set up at U.S.-based Oribe Hair Care, LLC (company manufacturing and selling products for professional salons) and Washing Systems, LLC (company manufacturing and selling commercial-use cleaning products), which have newly joined the Kao Group.

Response to compliance violations, and legal violations in 2018

We uphold a principle of disclosing violations of laws and regulations that occur in relation to the 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 factor, the violation may not be made public.

In 2018, there were no incidents of serious compliance infractions involving the group business operations. Also it

was verified that no political contributions were made in 2018. There were a total of 20 cases globally that resulted in persons leaving their positions (including resignation under instruction). These included cases involving fraudulent behavior such as theft and embezzlement, harassment, serious traffic violations, and other offenses. Most cases were at the level of individual employees, and none were serious enough to cause any major harm to the company's business operations. In response to these cases, we have taken efforts to thoroughly establish our core value of Integrity through internal educational activities.

Thirteen consecutive years on the World's Most Ethical Companies® list

In February 2019, Kao was selected for the list of the World's Most Ethical Companies 2019 by the U.S. think-tank Ethisphere Institute. We have been named to the list for 13 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 in the world to be honored for 13 consecutive 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 shows that the spirit of integrity 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.



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