



Kao CSR/Sustainability Report 2010

For the year ended March 31, 2010

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CSR Reporting Policy

Kao reports the Group's activities a variety of ways.

Editorial policy for this website

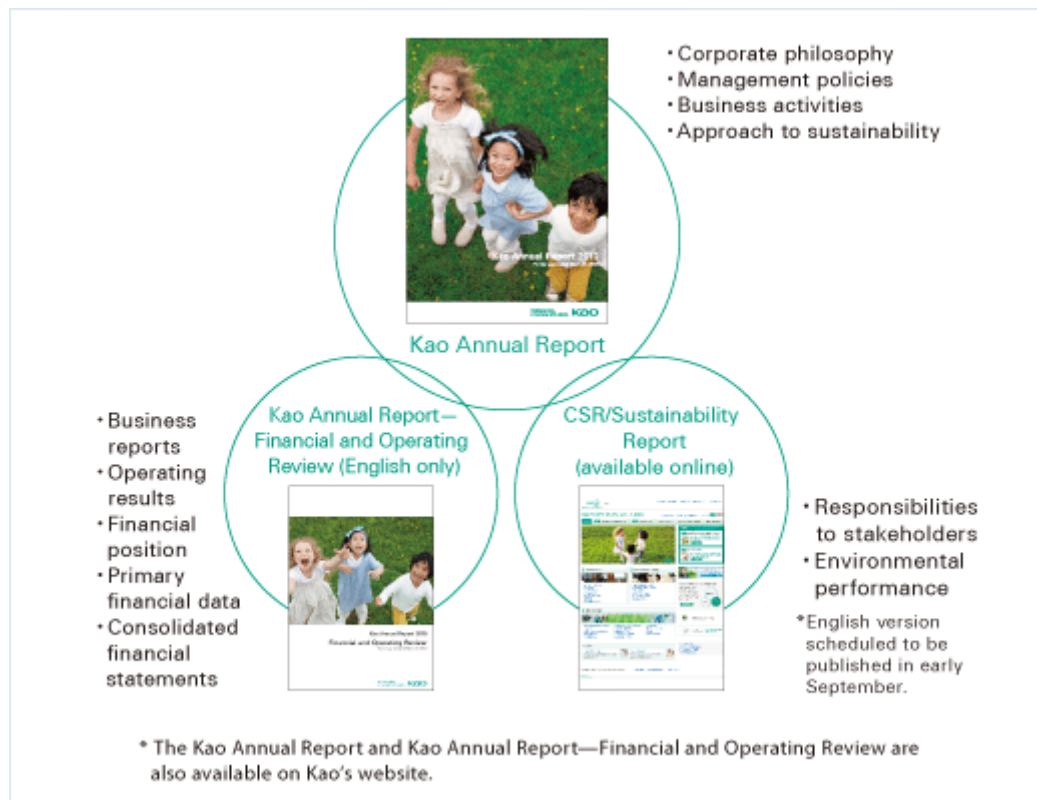
Kao issued "Kao's Responsible Care - Environment, Safety and Health Report", its first Environment and Safety Report in 1998. In 2004, more information on social issues was included and the title was changed to "Environment, Safety and Social Report". In 2005, we upgraded to a CSR Report that introduced our business operations from the viewpoint of corporate social responsibility (CSR), disclosing and supplying information in response to the interests and concerns of various stakeholders. In this report, we describe the policies and details of our day-to-day CSR activities promoted in accordance with The Kao Way, our corporate philosophy, along with their progress.

In April 2010, we started to refer to our CSR activities as "activities for sustainability" to represent our determination to help create the sustainable development of the Earth and society through our business operation. To conserve paper resources, this year we decided not to produce a printed version of our CSR/ Sustainability Report and instead have made it available on our website as the CSR/ Sustainability Report.

The Kao Group's corporate activities are presented primarily through three reports.

The Kao Group reports its corporate activities to stakeholders by means of three communication tools: the Kao Annual Report, Kao Annual Report - Financial and Operating Review, and CSR/Sustainability Report (available online). The Kao Annual Report combines environmental, social, and economic content to provide a comprehensive look at the Kao Group, while the Kao Annual Report - Financial and Operating Review and CSR/Sustainability Report address the past fiscal year's activities, results, and associated quantitative data from economic as well as environmental and social perspectives, respectively.

Three reports of Kao Group for corporate communication



Scope of Reporting, etc.

Organizations covered

In general, this report covers the activities of the Kao Group (Kao Corporation, its subsidiaries and affiliates).

We have specified if the data is collected from outside the aforementioned scope.

Names of organizations covered

Business Unit		Major Companies	
Consumer Products Business	Beauty Care Business	In Japan	Kao Corporation, Kao Customer Marketing Co., Ltd., Kao Professional Services Company Limited, Ehime Sanitary Products Company Limited, Nivea-Kao Company Ltd., Kanebo Cosmetics Inc., Kanebo Cosmetics Sales Inc., e'quipe, Ltd., Lissage Ltd., seven other companies (16 companies in total)
	Human Health Care Business	Overseas	Kao Corporation Shanghai, Kao Commercial (Shanghai) Co., Ltd., Shanghai Kanebo Cosmetics Co., Ltd., Kao (Hong Kong) Ltd., Kao (Taiwan) Corporation, Kao Industrial (Thailand) Co., Ltd., Kao Commercial (Thailand) Co., Ltd., Kao (Singapore) Private Limited, P.T. Kao Indonesia, Kao Brands Company, Guhl Ikebana GmbH, Kao Brands Europe Limited, KPSS-Kao Professional Salon Services GmbH, KPSS Inc., KPSS Deutschland GmbH, Molton Brown Limited, Kanebo Cosmetics (Europe) Ltd., 53 other companies (70 companies in total)
	Fabric and Home Care Business		
Chemical Business		In Japan	Kao Corporation, Kao-Quaker Company, Ltd., Showa Kosan Co., Ltd., one other company (four companies in total)
		Overseas	Kao (Taiwan) Corporation, Pilipinas Kao, Incorporated, Kao Industrial (Thailand) Co., Ltd., Fatty Chemical (Malaysia) Sdn. Bhd., Kao (Singapore) Private Limited, P.T. Kao Indonesia Chemicals, Kao Specialties Americas LLC, Quimi-Kao, S.A. de C.V., Kao Chemicals GmbH, Kao Corporation S.A., eight other companies (18 companies in total)
Others		In Japan	Kao Logistics Co., Ltd., Kao Logistics Service Co., Ltd., KC Logistics Inc., Kao Merchandising Service Company, Ltd., six other companies (10 companies in total)
		Overseas	Misamis Oriental Land Development Corporation, nine other companies (10 companies in total)

Period covered

Performance data pertains to fiscal 2009 (from April 1, 2009 to March 31, 2010). Data on occupational safety and health, as well as on overseas Group companies, covers the calendar year 2009 (from January 1 to December 31, 2009). Some fiscal 2010 activities are also included.

Independent review

Kao's CSR Reports have been subject to independent review since 2003. This report has been reviewed by the Responsible Care Verification Center of the Japan Responsible Care Council.

Activities covered

This report covers CSR activities in relation to the business activities described in the section on Business Fields on Kao Corporation's website.

▶ [Kao corporate site: Business Fields](#) 

Issuing period

Previous report issued in July 2009

Next report scheduled for issue in July 2011

Guidelines referenced

- GRI 2006 Sustainability Reporting Guidelines
- Environmental Reporting Guidelines (2007) 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

Feature 1**Helping Create a Sustainable Society**

In 2009, Kao made clear its aim of promoting ecological management that places ecology at the core, and announced the Environmental Statement prescribing objectives to be achieved by 2020. We took a step further in April 2010, adding “contribute to the sustainability of society” to the missions embedded in our corporate philosophy, the Kao Way, in order to clarify our intention to innovate our business activities to center around sustainability.

Promoting *Yoki-Monozukuri* that positions ecology at the core of management

Kao's ecology-centered management

Upon the announcement of the Environmental Statement in June 2009, Kao vowed to promote “eco together” efforts to promote its environmental activities in collaboration with consumers, business partners, society and various other stakeholders throughout the entire life cycle of products - from material procurement and manufacturing, to distribution, sales, use and final disposal. Amid a society confronted with a range of global environmental challenges, such as the depletion of natural resources and global warming, Kao, as a company with a mission of striving for the enrichment of the lives of people globally, asked themselves again what “the enrichment of the lives of people” is, and reached the decision that as medium- to long-term management strategies we should promote product development with an emphasis on reducing our impact on the environment. That is, we should promote ecology-centered management in harmony with nature in the course of operations while fulfilling our responsibilities as a company dealing in chemical substances.

Most Kao products are for everyday use in homes, and therefore, it is essential to work together with consumers/customers, business partners and the society as a whole, to reduce CO₂ emissions and water consumption during the entire life cycle of products. With such objectives in mind, “eco together” with various stakeholders has become a core theme of the activities.

Moreover, developing new environmental technologies, or “eco innovations” is essential in order to substantially reduce CO₂ emissions and water consumption. To drive forward its activities at the technological end, Kao will open the “Eco-Technology Research Center (ETRC)” in June 2011 at its Wakayama Plant. ETRC will serve as a comprehensive R&D base specialized in environmental research to realize sound ecology-centered management, engaging in the development of next-generation environmental technologies.



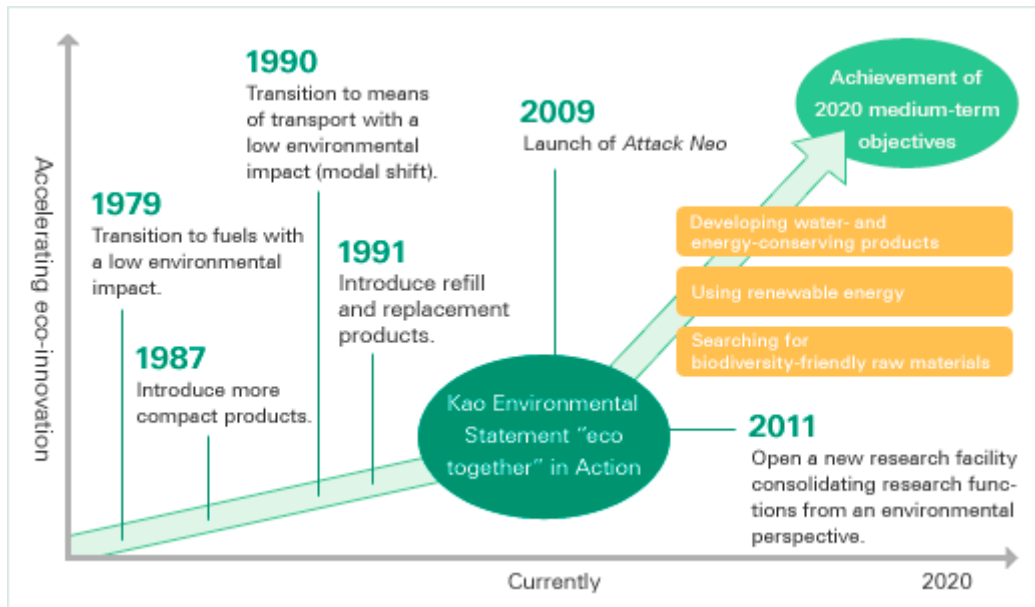
Eco-Technology Research Center and Plant Biomass
Research Building (Rendering)

What next?

To achieve the objectives defined in the Environmental Statement, Kao established the Eco-Strategy Committee as a subordinate organization of the CSR Committee (changed to Sustainability Committee in April 2010) in October 2009. Comprised by business unit representatives, production, R&D,, purchasing, sales, distribution and corporate division personnel, the new committee is a forum for defining policies of products, technology, resources, energy procurement, to plan and implement strategies to achieve the objectives set forth in the Environmental Statement. As a direct result, activities under the eco action promotion project, policy planning meetings and the eco strategy communication project have begun to meet set objectives.

Kao's environmental activities started with the introduction of phosphorus-free detergent and exhaust gas treatment in production in the 1970s. Kao went on to launch the world's first compact laundry detergent *Attack* in 1987, and in 1990 Kao started a modal shift in transportation from track to rail thereby placing less impact on the environment. In 1991, Kao released its first refill and replacement products (currently 138 such products are available). In 1995, Kao also started activities for Responsible Care, the global chemical industry's voluntary initiative for sustainability. Building on these endeavors, we are proactively developing water and energy conserving products, utilizing renewable energy, and searching for raw materials paying due consideration to biodiversity as our specific measures to contribute to achieving sustainability of the Earth and the society as a part of our effort to embody our Environmental Statement.

Kao's approach to environmental activities



Feature 1

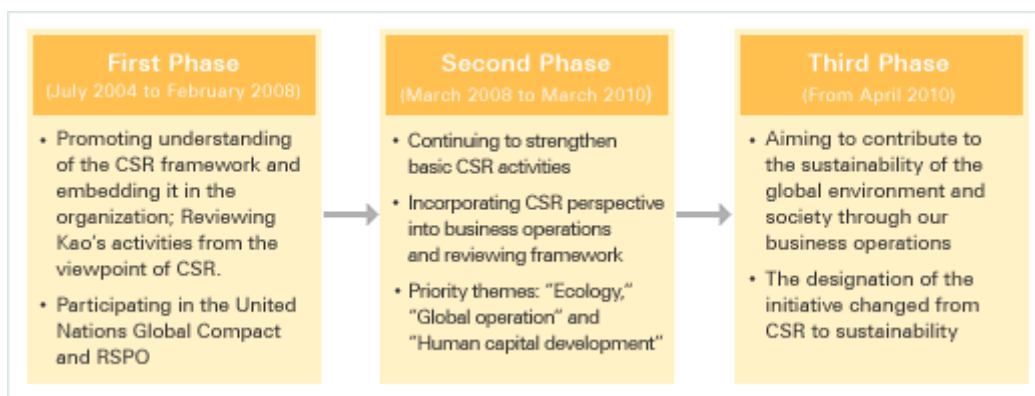
Helping Create a Sustainable Society

From CSR to Sustainability

Development of Kao's CSR activities - Three phases since 2004

Since establishing the CSR Committee and CSR Department in July 2004, Kao has implemented its CSR activities as a Group-wide initiative. We started these efforts by promoting employees' understanding of CSR. We reviewed operations of each division within CSR framework and also took part in the United Nations Global Compact and the Roundtable on Sustainable Palm Oil (RSPO). While we have continuously strengthened basic CSR activities essential to our continued existence as a corporation, such as corporate governance, risk management and compliance, we defined, in 2008, three themes by integrating CSR perspective into our day-to-day business operations: "Ecology," "Global Operation" and "Human Capital Development." Effective April 2010, we changed the designation of these endeavors from CSR to sustainability, in line with our commitment to realizing the sustainability of the Earth and the society through our business operations.

Progress on CSR activities



Three themes: “Ecology,” “Global operation” and “Human capital development”

The Kao Group has defined themes for our sustainability activities based both on stakeholders' emphasis on social issues and the Kao Group's medium to long term corporate strategies.

“Ecology”

Aiming for sustainability of the global environment and resources

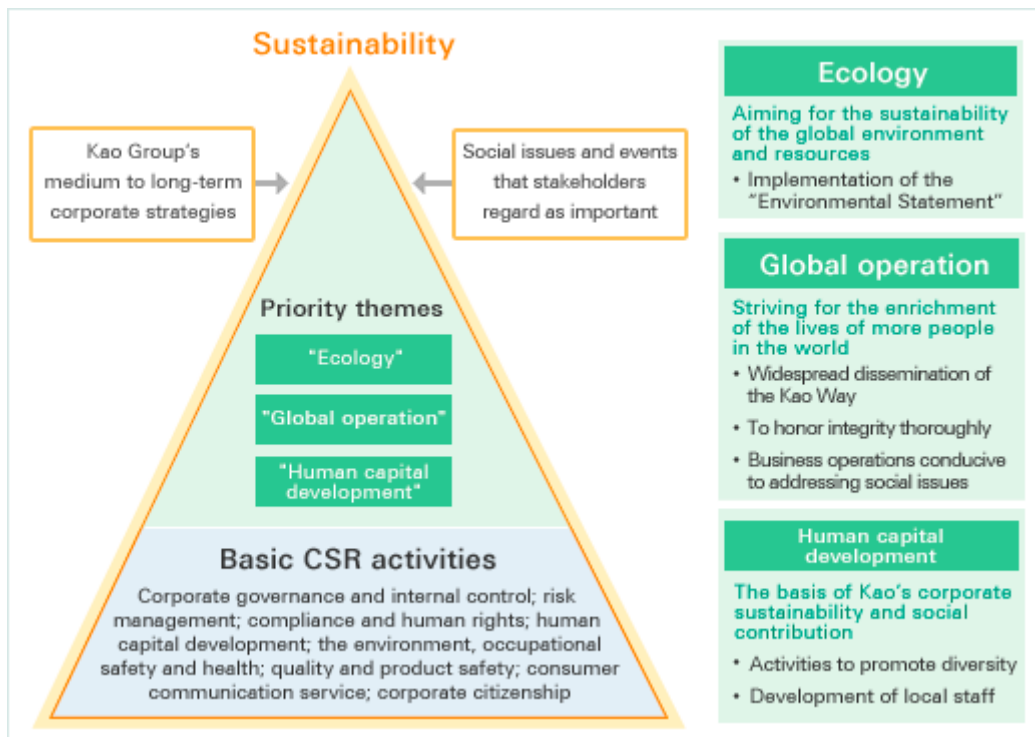
“Global operation”

Striving for the enrichment of the lives of more people globally

“Human capital development”

The basis of Kao's corporate sustainability and social contribution

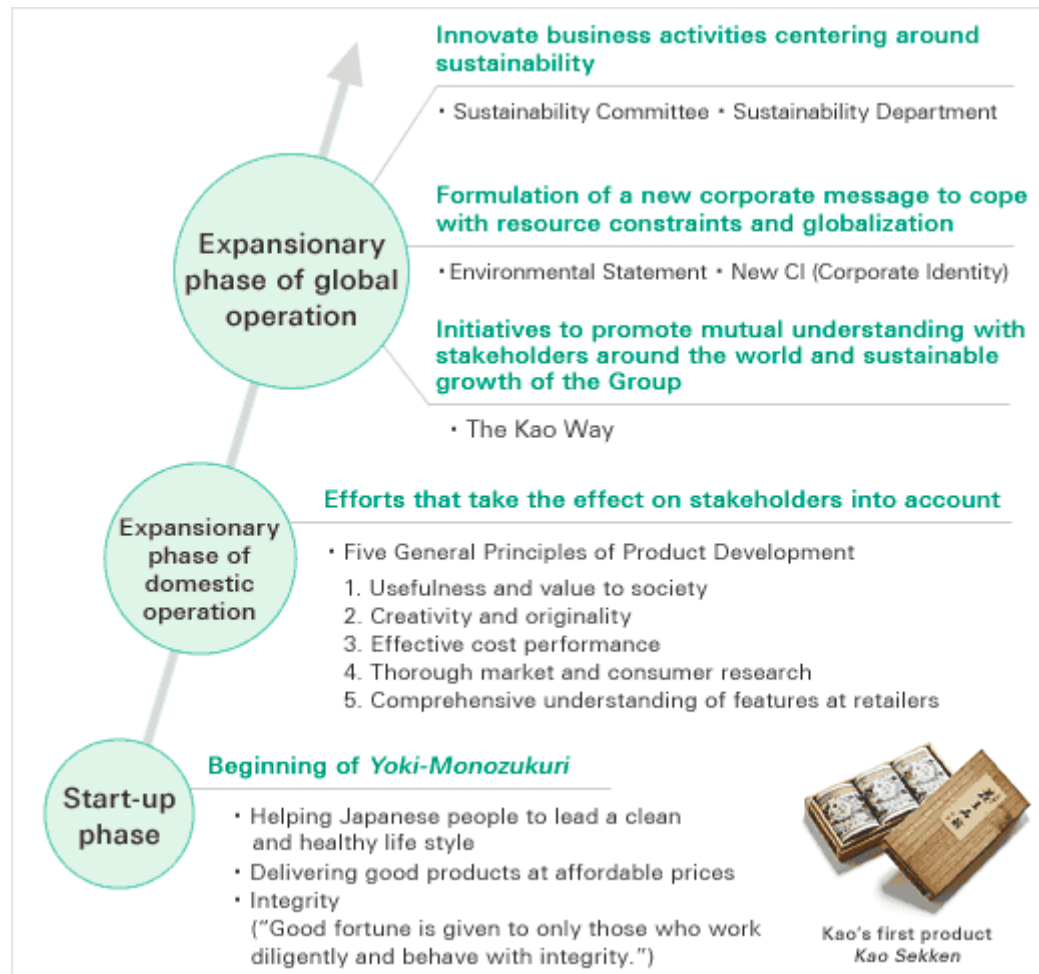
Conceptual diagram of Kao's sustainability activities



CSR perspective since its founding and the Kao Way

Kao Sekken quality toiletry soap was released in 1890, arising out of Kao's wish to contribute to the cleanliness and comfort of people's lives. Since then, Kao has consistently operated in line with its CSR perspective, and in 2004, it incorporated the founding spirit into the corporate philosophy, the Kao Way. For Kao, CSR activities can be rephrased as the implementation of the Kao Way. In April 2010, to clearly recognize the development from CSR to sustainability, we revised the mission of the Kao Way to read "to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective."

Kao Group's Management and CSR Perspective



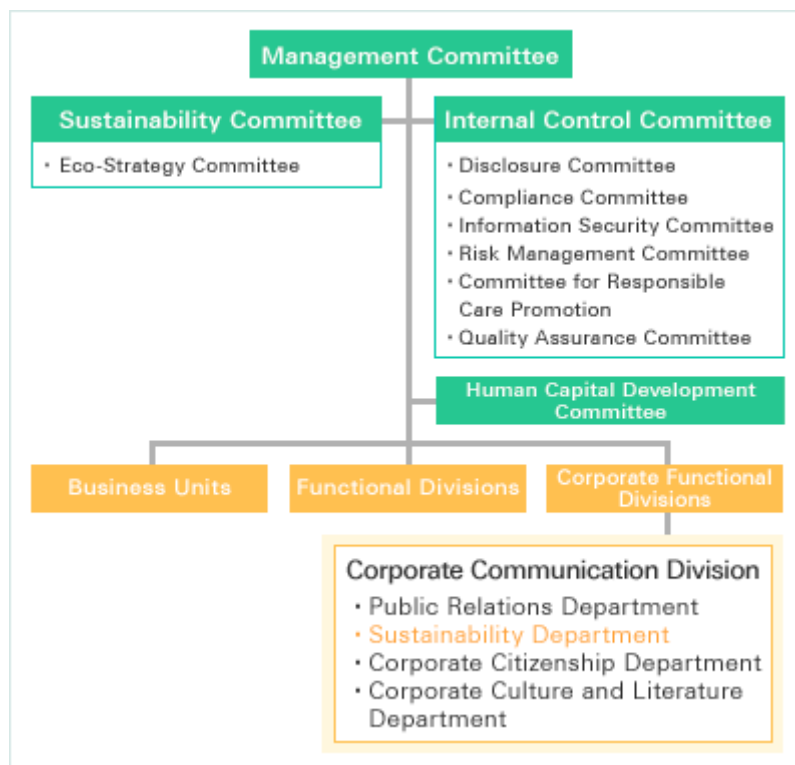
Feature 1

Helping Create a Sustainable Society

Organization to achieve sustainability

In an effort to innovate its business activities to center around sustainability, Kao established the Sustainability Committee in April 2010 to replace the CSR Committee that had led Kao's CSR activities since July 2004. The Committee is responsible for deciding on policies, identifying problems and discussing matters for improvement for the Group as a whole. The CSR Department, which was the secretariat of the CSR Committee, changed its designation to the Sustainability Department. The new department carries out a function of the secretariat for the Sustainability Committee while undertaking education, spreading awareness of sustainability and information throughout for the entire Kao Group.

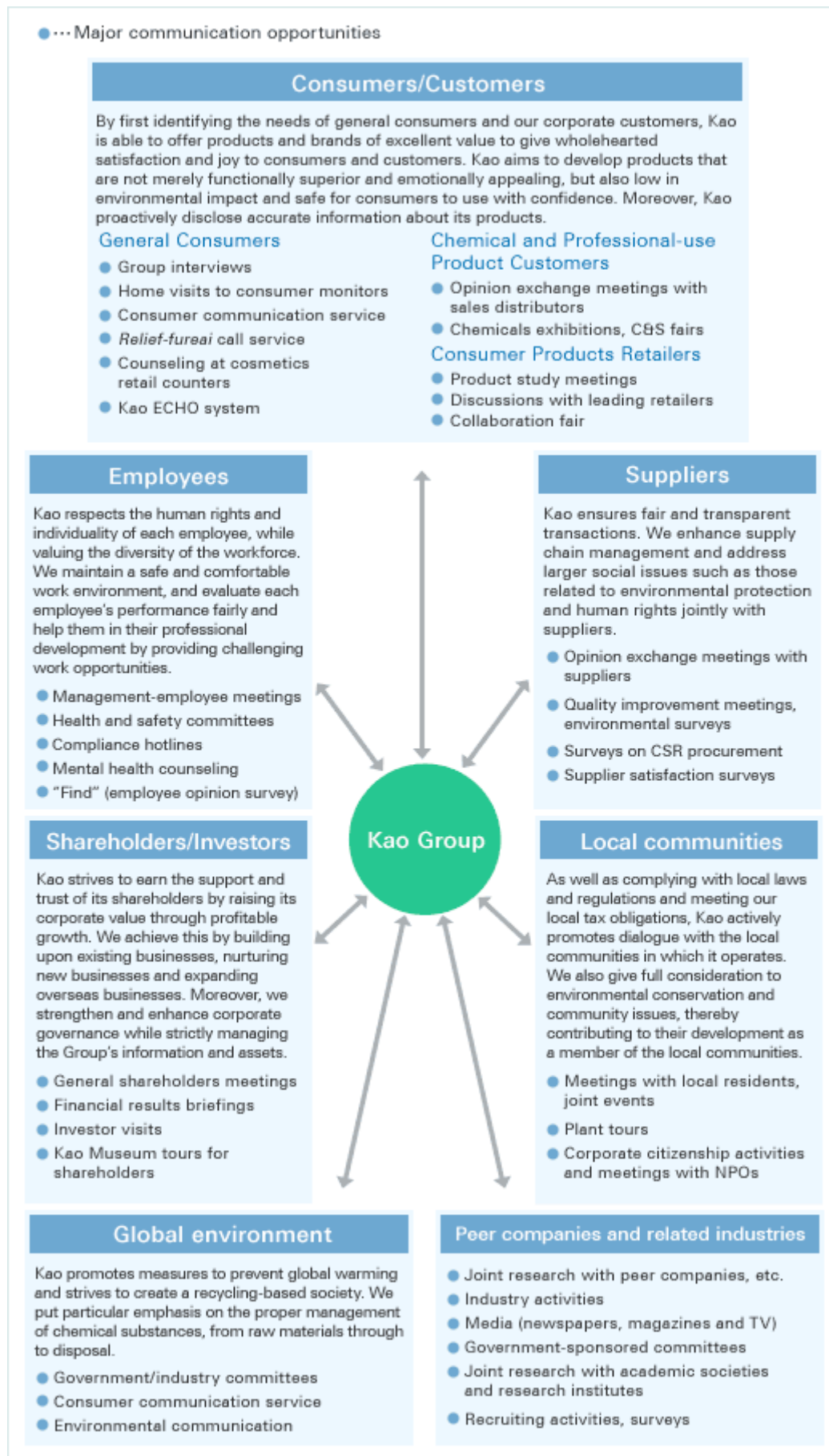
Sustainability Management System



Continued dialogue with stakeholders

The Kao Group is promoting its business activities as shown below to achieve sustainability of the environment and the society, through continued, active dialogue between divisions of the Group and various stakeholders.

Kao Group's opportunities for stakeholder dialogue



Feature 2

About *Econa*

In September 2009, Kao suspended production and sale of *Econa* products, based on recent findings on a chemical substance that were published by a German risk assessment institute. While there is no direct link showing concerns about the health effects of this chemical substance, Kao submitted a revocation notice pertaining to Food for Specified Health Use approval for *Econa* products in October 2009, out of an abundance of caution and in reaction to concerns by stakeholders. Since the suspension of production and sale of *Econa* products, Kao has built a company-wide system to deal with such situations and for necessary measures in the future. This report focuses on the background of the suspension, responses we took after the suspension announcement, our measures planned for the future and the impact from stakeholders' opinions.

Background to suspension of production and sale

Glycidol fatty acid esters contained in *Econa Cooking Oil* confirmed

In March 2009, the German Federal Institute for Risk Management (BfR^{*1}) published information relating to a chemical substance known as glycidol fatty acid ester contained in certain refined fats and oils. Although there have been no reports indicating safety concerns, including regarding suspected carcinogenicity of glycidol fatty acid esters, the *potential* for conversion into carcinogenic compound glycidol, when metabolized in the human body, was to light. Therefore, BfR suggested that relevant industries should take measures to reduce the level of glycidol fatty acid esters, as a precautionary step.

In response to this finding, Kao conducted independent analysis on *Econa Cooking Oil* and found that glycidol fatty acid esters were generated in the refining process. Furthermore, the levels of the compound were higher than those found in other commonly used cooking oils. (Levels of glycidol fatty acid esters in common food oils were 0.5 to 9.1ppm, whereas the level in *Econa Cooking Oil* was 91ppm^{*2}.) Kao immediately reported this result to the Ministry of Health, Labour, and Welfare, and the findings were examined at the Food Safety Commission's joint special committee meetings in July and August 2009.

^{*1} BfR (Bundesinstitut für Risikobewertung)

^{*2} 91ppm = 0.0091% (3-MCPD conversion value)

Safety of *Econa* products and reasons for suspension of production and sales

Kao has repeatedly assessed the safety of *Econa* products since its application for permission to label the products as Foods for Specified Health Use in 1998. We have, consequently, confirmed that *Econa* products posed no safety concerns based on scientific grounds and objective assessments. For example, we tested for effects in cases of taking large quantities of *Econa* products at one time and in taking for an extended period of time. We also tested for the oil's carcinogenicity, reproductive toxicity (whether a product has an effect on unborn children), and genetic toxicity (whether a product has an effect on genes), when consumed daily for life. All of the tests were conducted at GLP standard^{*3} compliant institutions. Especially for carcinogenic tests, a globally accepted safety test method was used.

At this point in time, much is still not known about glycidol fatty acid esters, such as how and to what extent they are metabolized into glycidol in the human body. Furthermore, there is no established testing method. If glycidol fatty acid esters are converted into glycidol in the human body, the MoE^{*4} approach is applied to assess the risk of genotoxic carcinogens. The MoE approach assesses the qualitative risk for carcinogens and is widely used by JECFA^{*5}, EFSA^{*6} and other international organizations. MoE is calculated by dividing the dosage known to lead to the creation of tumors in animals by the estimated human intake. MoE of 10,000 or higher is generally considered of low concern. In the case in which glycidol fatty acid esters are converted into glycidol at a rate of 100 percent, the MoE of *Econa* products was reported to be approximately 250^{*7}.

MoE values of ethyl alcohol contained in alcoholic beverages and caffeic acid in coffee range from three to 90^{*8}. Food or beverages containing this are consumed daily, yet there are no related regulations. The MoE of acrylamide, which has gained much attention as a newly identified carcinogen, is 75 to 300^{*9} (depending on intake level.) Acrylamide is formed when food with high amino acid and sugar contents is cooked at high temperatures. It is contained in fried potatoes and biscuits, and although international efforts have been made to reduce its content in these products, no related regulations have been imposed to date.

Safety tests of *Econa* products containing glycidol fatty acid ester revealed no safety problems compared with common cooking oils. Nevertheless, Kao decided to suspend the production and sale of *Econa* products, deciding it necessary to reduce the content of glycidol fatty acid ester in its *Econa*. We have already identified some possible measures to increase the MoE of *Econa* products to 10,000 or higher, which is equivalent to that of common cooking oils, and are striving to resume sales of these products.

- *³ GLP standard (Good Laboratory Practice)
This is a standard to guarantee that a test was conducted accurately and properly.
- *⁴ MoE (Margin of Exposure)
Values calculated by dividing the dosage known to lead to the creation of tumors in animals by the estimated human intake
- *⁵ JECFA (FAO/WHO Joint Expert Committee on Food Additives)
- *⁶ EFSA (European Food Safety Authority)
- *⁷ 62nd newly developed food and 75th food additive joint expert panel meeting of the Food Safety Commission of the Cabinet Office reported the MoE of *Econa* products in the worst case where glycidol fatty acid esters are converted into glycidol at a rate of 100%.
- *⁸ MoE calculated from average daily human exposure (data on Americans)
 - ▶ [The Carcinogenic Potency Database \(CPDB\)](#) 
- *⁹ WHO FOOD ADDITIVES SERIES: 55, Safety evaluation of certain contaminants in foods. Prepared by the Sixty-fourth meeting of the Joint FAO/WHO Expert Committee on Food Additives (JECFA)
 - ▶ [JECFA evaluation and recommendations, Ministry of Agriculture, Forestry and Fisheries website](#) 

Revocation notice for Food for Specified Health Use approval submitted

Out of an abundance of caution, Kao decided on the temporary suspension of production and sale of *Econa* products, with a goal of taking the time to reformulate the product to lower the content of glycidol fatty acid esters in the products as quickly as possible. This decision was made public on Sept. 16, 2009, and it was immediately followed by significant concern among many stakeholders and officials. In retrospect, Kao recognizes that the communication channels were insufficient to fully explain the situation - including the fact that there was no direct proof that the product was a health concern. As a result of the insufficient communication channels, Kao was unable to respond directly to all of the concerns from customers and other stakeholders, which led to more confusion. In order to deal with the growing concerns of certain stakeholder groups, Kao submitted a revocation notice pertaining to Food for Specified Health Use approval on Oct. 8, 2009.

Kao's responses after submitting the revocation notice

Kao has already identified some possible measures to reduce the amount of glycidol fatty acid esters used and is working diligently to resume *Econa* sales. After the amount of glycidol fatty acid esters is successfully reduced and findings of the safety and efficacy of *Econa* products are confirmed, Kao will reapply for Food for Specified Health Use approval with a new formulation.

We are making efforts so that we can offer functional cooking oil products that will contribute to the good health of consumers, in particular those with diseases such as diabetes. We also continue to strive to contribute to the prevention and improvement of lifestyle-related diseases, which are common in people in the modern age, by providing functional cooking oils and new information services, as a way to propose a diet that fits with the lifestyles of consumers.

Feature 2 About Econa

Kao's Response to Stakeholders

Establishment of Consumer Consultation Desk for Econa

Upon the announcement of *Econa's* sales suspension, we established a Consumer Consultation Desk for *Econa* products. This was a dedicated toll-free telephone service to deal with an anticipated increase in calls from stakeholders. Soon after the suspension, we received more than 160,000 inquiry calls in one day, which corresponds to the number of inquiries we usually receive in an entire year. Because the number of inquiries was far beyond our expectations, we were unable to respond to all calls at first, causing inconvenience to our stakeholders. As we have done in the past, we would like again to extend our apologies to our stakeholders for any concerns and inconvenience caused by this event and our response to the situation.



Consumer Consultation Desk for *Econa* products attended by Kao employees

In response to the great number of calls, we added more toll-free telephone lines and asked research laboratories and related divisions for help in handling the inquiries through company-wide efforts. Yet, the lines including those for the regular consultation service were constantly engaged, and consumers still seemed to have trouble getting through. The number of calls, letters and emails from Sept. 16, 2009, when we announced the suspension of sales, to March 31, 2010 totaled 405,000. Inquiries were about returns, safety and Kao's position on the situation. Kao took all feedback seriously and shared with appropriate leaders in the Company. At the same time, we made all efforts to supply information to stakeholders by adding more telephone lines, posting information on our website and providing information to consumer information centers throughout Japan.

Returns

In addition, we sent a coupon worth the price of the product to customers who wanted to make a return. Because *Econa* products were offered in a wide variety of items and lots, we established return centers at our four plants in Japan, assigning about 15,000 employees of the Kao Group and business partners to process returned items at the centers. Currently, we continue to accept returns at the centers, although on a reduced scale.



Kao Group employees handle returns.

Active communication activities

Kao has been hosting briefing and dialogue sessions for a wide range of stakeholders to ask for their views on our decision to suspend production and sales of *Econa* products and the submission of the revocation notice for Food for Specified Health Use approval. Such stakeholders include consumer organizations, members of the news media, national registered dietitians, public health nurses, co-op officials, food manufacturers, academic experts and university staff and hospital staff. They expressed varied opinions on the importance of two-way communication and the consideration of risks related to food products. We will continue to promote communication activities with our diverse stakeholders to deepen mutual understanding.

Continuous provision of information through the website

We have consistently provided various data on *Econa* products via the corporate website. These include a special information web page, titled "Important Notice on *Econa*," which went live at the announcement of the suspension of sales. In addition, on our R&D page, we feature the most up-to-date published research with accompanying explanations.

Since May 2010, we renewed the *Econa* site, providing information in a format that is easier for consumers to understand. The site provides includes information on *Econa* such as news releases, an FAQ (Frequently Asked Questions) for consumers and relevant links, such as to the Food Safety Commission and the Consumer Affairs Agency.

▶ [Research and Development on Nutrition and Metabolism](#) 

▶ [Econa website](#) 



Important Notice on *Econa*
(currently, integrated into
the *Econa* website)



Research and Development
on Nutrition and Metabolism



Econa website

Booklets published for experts, mass media and consumers

Kao plans to issue a supplementary volume of *Kao Health Care Report* for food experts and members of the news media in summer 2010. In addition, we will provide consumer-friendly brochures for customers who requested more information. The supplementary volume of *Kao Health Care Report* is a special issue of the quarterly publication *Kao Health Care Report*, which has been issued since 2003, and features *Econa* products and related issues.

Kao's efforts for the future

As stated above, no global standard, analytical methods were available for glycidol fatty acid esters. Kao, however, has developed a new method to directly analyze the compound in edible oil*. We have established a technique to reduce the content of glycidol fatty acid esters to a level comparable to that in common cooking oil and have started a project to re-launch the products. Once we succeed in the reduction of glycidol fatty acid esters, we will review the findings on *Econa*'s product safety and efficacy and reapply for Food for Specified Health Use approval. We will continue to conduct research toward the development of microanalysis methods to study metabolism of glycidol fatty acid esters and ways to lower its content, through industry-government-university collaboration in the European Union, the United States and Japan. We are aware that the series of events resulted in the suspension of production and sale of *Econa* products caused significant concern and inconvenience to our stakeholders, especially the long-time *Econa* users. Recognizing that there is no direct link to safety concerns from the product, these concerns resulted mainly because of communication issues on our behalf. Throughout this process, we diligently and methodically reviewed the concerns, complaints and encouragement from our stakeholders. Using this event as a lesson, we are working to improve our system for risk response, with an emphasis on dialogue and communication with stakeholders. We look forward to continued discussion with our stakeholders on this issue, and all of our products.

* Masukawa Y, Shiro H, Nakamura S, Kondo N, Jin N, Suzuki N, Ooi N and Kudo N, *J Oleo Sci*, 59, 81-88 (2010)

Feature 2

About *Econa*

Specialist Comment

Opinion from the perspective of CSR

**Scott T. Davis**

Professor of Corporate Social Responsibility and Strategy at the College of Business at Rikkyo University in Tokyo. Specializes in corporate social responsibility, business strategy and ethical leadership.

Comments on the meaning of the Kao Corporation's strategy for providing a healthy choice for consumers, the *Econa Cooking Oil* and the incident regarding the suspension of its sale.

I have been asked to write an opinion piece evaluating Kao's response to the *Econa* situation. As the timeline of events comprising the situation and the technical details of the processing and analysis of *Econa* as a product have already been explained elsewhere, I will focus my comments on the broader issues involved in this incident and their meaning for the future of the Kao Corporation as a responsible business and for the food industry in Japan as a whole.

The point to be noted here is that *Econa* was fully verified to be a safe product. The problem with *Econa* is not one of safety - it is a problem of communication and regulation procedures.

Understanding the meaning of this incident itself, and its meaning within the industry as a whole, requires that we understand the unique nature of *Econa* as a product and the implications of this originality.

***Econa* as a unique type of product**

Kao has long pursued a mission of improving the quality of life by developing products that resolve problems and alleviate shortcomings faced by consumers in their daily lives. *Econa* is one such product. *Econa* was a great challenge for Kao. It represented Kao's first entry into the cooking oil market and, at the same time, the application of new technologies to produce a unique and original cooking oil. *Econa* was therefore a new experience for both Kao and the market in Japan.

Kao spent decades developing the technology and the actual product that was to be marketed as *Econa*. During this time, *Econa* was tested according to all the procedures required by the Japanese regulatory authorities and passed all the standards of safety and long-term usage required in order to allow it to be sold. Going beyond industry requirements, Kao also participated in a wide range of scientific studies on the effects and benefits of long-term usage under normal living conditions. This regimen of research continued even after the product was introduced. After introduction, university medical research teams sought and received the cooperation of Kao in order to conduct independent studies to assess the benefits of *Econa* consumption as a substitute for regular cooking oil for individuals suffering from chronic illnesses, such as advanced diabetes.

Econa passed all the tests required of it, as well as third-party trials where Kao had no influence over the testing procedures or publication of results. In addition, Kao continued to test *Econa* after its introduction as part of a long-term process of ongoing product development and improvement.

***Econa* as a communications issue**

Econa was a revolutionary new product developed specifically to promote health while maintaining the convenience of a modern lifestyle. The people at Kao refer to this strategy as "healthy alternatives." Kao uses advanced material and production technologies to create new products that maintain convenience while promoting health. This goal is a natural extension of Kao's founding mission to promote wellbeing by continually developing products that are healthier, more convenient, and more sustainable. This mission, and the work to realize it, is part of an ongoing, continuous process that reaches back to the establishment of the company itself. Kao's strength as a business is based upon the fact that it continually researches the way that consumers use its products, investigates how this usage contributes to realizing their ideal lifestyles, actively searches for opportunities to improve its existing products, and continually develops new technologies in order to create more advanced new products. The discovery of traces of glycidol fatty acid esters in *Econa* was a result of this ongoing effort for continuous improvement. Kao's subsequent suspension of sales was also a direct extension of its mission.

Background of food issues in Japan

For the last several years, the consumer in Japan has been shocked by a series of scandals in the food industry. Products made of expired ingredients, products made using industrial waste, products contaminated with illegal pesticides, products fraudulently labeled, and products with falsified expiry dates have been in the news almost every week. The Japanese consumer has come to equate product recalls and production suspensions with fraudulent business practices and disreputable corporations. It is no exaggeration to state that a feeling of mistrust prevails among Japan's consumers. This is the first reason why the suspension of *Econa* sales became such an issue.

Kao announced its suspension of sales of *Econa* until it could be reformulated or the production process redesigned so that a recently discovered impurity in the product - a molecule, the existence of which had been discovered only a few months earlier - could be eliminated. It must be remembered, however, that with or without

knowledge of this impurity, *Econa* remained proven by long-term usage tests to be safe. Kao's action was in accordance with its declared corporate mission and product strategy to continually strive to improve the benefit of its products and the wellbeing of its consumers. In this instance, advances in science had enabled a greater understanding of the product and the technology used in its production. Kao acted upon this advancement as an opportunity to improve its product. This action was and is laudable. However, Kao also made a serious mistake.

Kao failed to fully understand the mindset of the Japanese consumer. Kao had failed over the years to fully communicate the long-term meaning of its mission and the nature of its product strategy to its customers. After years of shock and disappointment at the ongoing scandals in the food industry, the Japanese consumer assumed that this sales suspension was yet another example of corporate misconduct. Essentially, this is a communications problem.

Kao had been engaged in a one-sided dialogue with its consumers, wherein Kao proposed healthier lifestyles - yet consumers demanded only good products. The consumer was not making the connection between the product and a healthier lifestyle. Kao should have made greater effort to promote understanding of its mission and the product strategy that results from it, instead of assuming that the popularity of its products can be equated with the understanding and realization of its mission. In the future, Kao must make greater effort to engage consumers in an active dialogue about what it means to be healthy, about what wellbeing does and can mean, and about the value of the ongoing innovation processes. Kao's products are based upon these processes for the promotion of health and wellbeing on the long-term.

Risk management as an industry-wide issue

Many processed food products are currently available in the Japanese market. Food products are usually processed for one of two reasons - to make them either taste better or last longer. The product development goals of better taste or longer shelf-life share key characteristics in that both are limited. Few people eat only the one product, so a sustained effort to improve taste in any single product is of limited benefit. Similarly, the benefit of a long shelf life in a normal food product will level out as the cost of storage outweighs the value of availability. The point here is that in most cases, there is a limit to the return to be had from investing in the enhancement of the technology for processing foods, when taste enhancement and shelf life are the primary objectives.

In situations in which the goal is limited, the *avoidance* of risk in the use or manufacture of a product becomes a key issue. In contrast, however, *Econa* and a small number of other products have been developed with the goal of promoting a healthier lifestyle. Since there is no such thing as a limit to our wellbeing - as we all strive for the best and healthiest lives possible for our families and ourselves - there is no limit in the goal of producing a healthy product other than that which is technologically or scientifically possible. As the goal is endless and its pursuit is ongoing, the *management* of risk becomes more important than its *avoidance*.

At present, the regulatory framework for monitoring and controlling the development and sale of processed foods is based on the premise of limited goals and therefore, the avoidance of risk is a primary issue. Under this system products with potential faults must be eliminated. While this is a common-sense approach to most food products, in which goals are focused on taste or shelf life, it is not suited to regulate and promote an industry seeking to produce health-promoting products. By definition, health-promoting products must be continually improved.

Scientific advancement, better testing procedures and research into long-term use will often reveal problems with food products based on limited goals. In many (if not most) cases, these problems will outweigh the benefits of taste and preservation and require that a product be withdrawn and discontinued. Our increasing knowledge will

constantly reveal risks that must be avoided. However, this same scientific advancement also creates opportunities to improve products designed to achieve our ongoing goal of a healthier life.

Kao's decision to suspend sales of *Econa* took place within the context of a regulatory framework based upon *risk avoidance*. Kao's action to manage risk as an opportunity was perceived and evaluated only as an attempt to avoid a risk. This was the second reason why Kao's action to withdraw *Econa* from the market caused so much concern. The present regulatory system emphasizes risk avoidance over risk management. It does not give sufficient guidance and support to corporations that proactively manage risks within an ongoing improvement process. Put simply, the present regulatory system is inadequate to fully exploit the opportunities provided by scientific advancement for the enhancement of human wellbeing.

Kao and a few other corporations in Japan have developed the levels of technology needed to develop and produce unique health-promoting products. These corporations could be the beginnings of an entirely new high-tech industry in Japan and the world. Given the westernization of the Japanese diet, the decrease in time spent exercising, and the ageing of the population, the contribution of such an industry to enhance the well-being of Japanese society could be enormous. Japan needs to develop a regulatory framework that can responsibly develop these products and this industry into the future. Japan's regulatory authorities, government agencies, consumer associations and corporations should actively engage in a constructive dialogue to discuss the meaning of health promoting products for Japan, to clarify Japan's expectations of these products, and to promote the responsible development and sale of these products by establishing a regulatory framework capable of the constructive management of risk.

In the past Kao has tried to accomplish this goal alone. This goal is too important and too complex for any one corporation to manage alone. Kao must increase its efforts to engage in open and constructive dialogue with the government, consumer and industrial associations in a collective effort to promote this new industry.

In conclusion

Some social critics in Japan have labeled Kao's suspension of sales of *Econa* to be a scandal. Nothing could be further from the truth. The level of honesty and responsibility with which Kao has responded to this situation is nothing short of remarkable.

I fully expect that Kao's response to the *Econa* situation will be studied in business schools in the future as a case study in responsible business decision making. I also hope that in the future, we will be able to look back upon this incident as a watershed event - as the event which prompted government, industry and consumer groups to come together to rethink the way product risk is defined and controlled. Furthermore, I hope the event will prompt a new system for the development and regulation of scientifically advanced products for the promotion and enhancement of health and wellbeing.


CSR Management

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Corporate Governance

Kao's basic position on corporate governance is to develop a managerial framework and an internal control system that can realize highly efficient, sound, and transparent management with the aim of continuously increasing corporate value.

Kao considers the continuous enhancement of corporate governance to be an important managerial task. We therefore inspect our own governance system annually based on requests of stakeholders, including shareholders, and social trends, and implement necessary measures in a timely fashion.

- ▶ [Standards for Independence of Outside Directors/Corporate Auditors of Kao Corporation](#) 



Corporate Governance System

Efforts toward the improvement of the Corporate Governance System

Kao has introduced, within the framework for the Board of Directors (including Outside Directors) and the Board of Corporate Auditors, the Executive Officer system in order to separate the supervisory function from the execution function. Under its current management system, following the conclusion of the 103rd Annual General Meeting of Shareholders held in June 2009, Kao has: 15 members on the Board of Directors, including 2 Outside Directors; 4 Corporate Auditors, including 2 Outside Corporate Auditors; and 25 Executive Officers, including 13 Executive Officers who serve concurrently as Board members. One Outside Director and Outside Corporate Auditors maintain their neutrality, independent of the Company's management. Kao has established the Compensation Advisory Committee and the Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President, which fulfill similar functions as the compensation committee and the nomination committee of a "company with committees," respectively. The Compensation Advisory Committee consists of all Representative Directors, the Chairman of the Board of Directors, and all Outside Directors. At this committee, the Representative Directors obtain opinions on the remuneration system and the level of remuneration for the members of the Board of Directors and Executive Officers; the committee meets once a year during the period to review remuneration paid to the members of the Board of Directors and Executive Officers. The Committee for Examination of the Nominees for the Chairman of the Board of Directors and the President, on the other hand, consists exclusively of all Outside Directors and all Outside Corporate Auditors. This committee examines the nominees prior to the election or re-election of the Chairman of the Board of Directors and/or the President, and submits its evaluation of the nominees' qualifications to the Board of Directors. We will make continuous efforts to improve our corporate governance structure through the various measures described above.

Ensuring appropriate remuneration of the members of the Board of Directors and Executive Officers and implementation of multidimensional evaluations for members of the Board of Directors and Executive Officers

As mentioned above, Kao has established the Compensation Advisory Committee to conduct reviews of the remuneration system and the level of remuneration for members of the Board of Directors and Executive Officers. Kao has also implemented a stock option plan for its Board of Directors members and Executive Officers for the purpose of aligning their interests with those of the shareholders of the company. In addition, bonuses are linked to corporate performance based on such factors as EVA (Economic Value Added).

The members of the Board of Directors and Executive Officers undergo multidimensional evaluations every other year to confirm their competency in leadership and their performance based on the opinions of those who work above, beside, and below them. The results of these evaluations are provided to the respective executive members as feedback to assist them in improving their own performance.

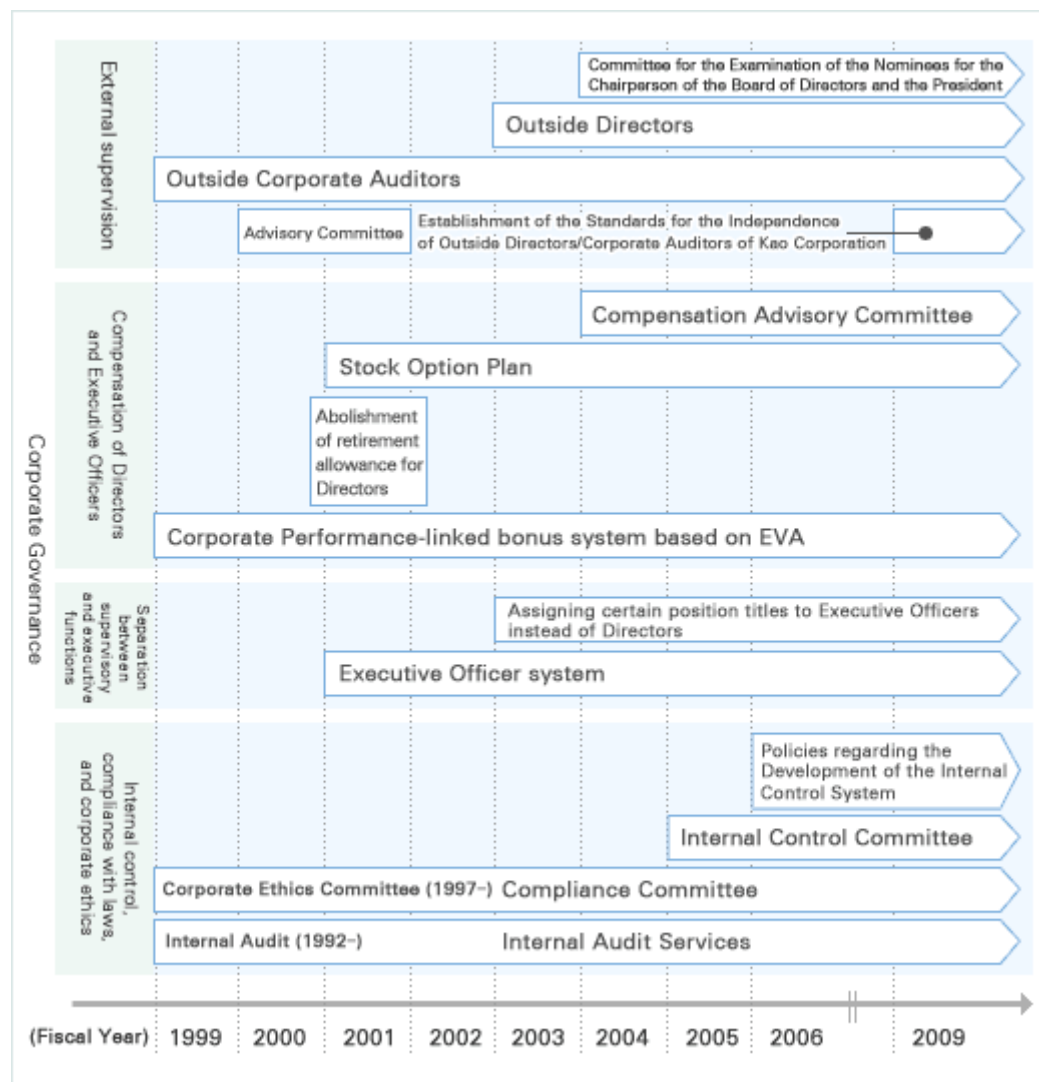
Continuously enhancing the auditing system and activities

To improve the effectiveness of audits and strengthen the auditing function, four Corporate Auditors, including two Outside Corporate Auditors independent from Kao's management, exchange opinions regularly with Representative Directors, attend the meetings of the Board of Directors, meetings of the Management Committee and other important meetings, participate in regular Conferences for Corporate Auditors of Domestic Group Companies, and share auditing information with the internal auditing division and the Company's Accounting Auditor. Corporate Auditors also conduct hearings with internal divisions and our subsidiaries regularly or as necessary.

In addition, Kao has established Global Internal Audit Services to conduct internal audits of the appropriateness of operational processes and the adequacy and efficiency of the management of Kao and its domestic and overseas affiliates.

In fiscal 2009, Kao conducted audits on the level of compliance with the internal rules, exports, and other operations with a particular focus on maintenance and operation of internal control. In July 2008, Kao also established Kao Global Internal Audit at Kao America Inc. to conduct business audits for our subsidiaries in North America.

Changes in corporate governance



Enhancement of Internal Control System

Basic policies and structure

In May 2006, Kao formulated its Policies regarding the Development of the Internal Control System to ensure transparency of management and appropriate execution of all operations and review them as needed after confirming the level of compliance. In accordance with these policies, the Internal Control Committee, chaired by the Representative Director, President & CEO of Kao, discusses and determines system maintenance and operation plans related to internal controls. The committee also evaluates the status of related activities on a regular basis and continuously makes improvements as needs arise.

Six committees have been placed under the Internal Control Committee (Disclosure Committee, Compliance Committee, Information Security Committee, Risk Management Committee, Committee for Responsible Care Promotion, and the Quality Assurance Committee), and individual subcommittees promote the internal control initiatives by employing the PDCA (Plan, Do, Check and Act) cycle. The members of the Board of Directors and Executive Officers who sit on these six subcommittees as key members also serve on the Secretariat of the Internal Control Committee to confirm the status of maintenance and promotion of the internal control system, including the status of individual subcommittees' activities.

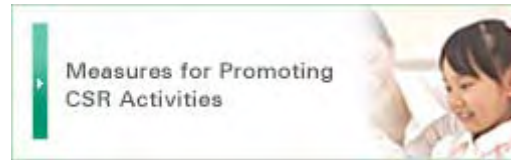
Responding to the Internal Control Report System (J-SOX)

In preparation for the Internal Control Report System under the so-called J-SOX, which came into effect in April 2008, Kao had been engaged in the Project to Promote the Documentation of Internal Control since fiscal 2006 and has been conducting activities to enhance the reliability of financial statements, including the documentation of major business processes and the promotion of company-wide controls. In fiscal 2008, to replace the Project to Promote the Documentation of Internal Control, the J-SOX Secretariat was launched. In June 2009, Kao provided the Financial Services Agency with the internal control report for fiscal 2008 stating that its internal control framework was effective.

Kao will continue to improve its internal control system and its operational structure to enhance the reliability of financial statements and the transparency of management.

CSR Promotion

The Kao Group is working to create a global CSR structure, as it expands overseas. Kao announced its participation in the United Nations Global Compact, the universal principles for CSR, and has established a system to control activities of the Kao Group as a whole.



CSR Promotion System

Maintenance of CSR promotion system centered on the CSR Committee

Kao has established an organizational system centering on the CSR Committee and the CSR Department to promote and oversee CSR activities at the group level. The CSR Committee is chaired by the President & CEO of Kao Corporation, and committee meetings are held four times a year with the participation of divisional representatives. At the meetings, individual divisional activities and challenges are discussed and solutions for the challenges are sought.

In fiscal 2009, the main topic of discussion was how the Kao Group as a whole would address important themes centering on the environment, partly due to the announcement in June of the Kao Environmental Statement.

The CSR Department serves as the secretariat of the CSR Committee. The department is also responsible for planning the direction of the Kao Group's CSR activities and conducting communication activities, including the disclosure of CSR-related information both within and outside the company.

Individual divisions continuously promote CSR activities by setting their own specific objectives, such as creating mechanisms to allow employees to make the most of their various capabilities, encouraging business partners in Kao's supply chains to carry out CSR activities, and launching initiatives aimed at preserving the global environment.

In addition, the CSR Committee and the CSR Department were renamed in April 2010 the "Sustainability Committee" and the "Sustainability Department," respectively, and they have begun operating in accordance with their new roles.

▶ [Feature Report 1: Helping Create a Sustainable Society - Organization to achieve sustainability](#)

Participation in the Global Compact (GC)

In May 2005, Kao announced its participation in the Global Compact (GC)*, and continues to maintain its commitment. To instill in our employees the spirit of the GC, Kao added the sentence, "we support and implement the ten principles of the Global Compact advocated by the United Nations," to our Business Conduct Guidelines (BCG) when we revised the document in fiscal 2008. In addition, Kao conducts a GC-based survey of Kao Group companies throughout the world every year. The fiscal 2009 survey uncovered no violations of the compact, such as the use of child labor.



▶ [Global Compact Japan Network](#) 

* Global Compact The Global Compact is an initiative that was advocated at the World Economic Forum in Davos, Switzerland in 1999. Under the GC, companies worldwide are called on to support ten principles relating to human rights, labor, the environment and anti-corruption, and endeavor to put them into practice as good global citizens.

Measures for Promoting CSR Activities

Implementation of training and explanatory meetings of CSR

It is difficult to further improve the quality of our CSR activities if our employees do not understand the meaning of CSR and do not participate in activities on an individual basis. Based on this belief, Kao holds regular meetings to explain CSR activities to managers of core divisions with the aim of promoting the understanding and implementation of CSR. Examples of topics covered in these meetings include "What is CSR?" "What are Kao's CSR activities?" and "What should each division and each employee do for CSR?"

Since fiscal 2007, we have included a CSR component in the training programs that all newly employed and promoted employees are required to undertake. We also explain our approach to CSR at regular meetings of our affiliates. In fiscal 2008, we started addressing the issue of CSR at meetings of CEOs and meetings of general managers in Asia, Europe, and the United States.

Expanding the promotion of CSR activities to Kao Group companies

From July to October 2009, we provided an intranet learning program on CSR to approximately 12,000 employees of Kao Corporation and Kao Group companies, including Kao Customer Marketing Co., Ltd., Kao Merchandising Service Co., Ltd., and Kao Logistics Co., Ltd. Participants of the program learned about the global environment and social changes as background information for the Kao Environmental Statement, as well as basic CSR issues, including Kao Group's approach to CSR and examples of CSR activities from other companies. Some 91.7% of the targeted employees participated in the program, and we received comments such as, "I understood where Kao is aiming to go," and "I obtained useful knowledge for business negotiations on *Attack Neo*."

At Kanebo Cosmetics Inc. on the other hand, individual divisions held meetings to examine CSR issues. Among them, issues that needed across-the-company examination were discussed by the CSR Committee, which decided the direction of CSR promotion linked to the business strategy.

Survey on the CSR Report

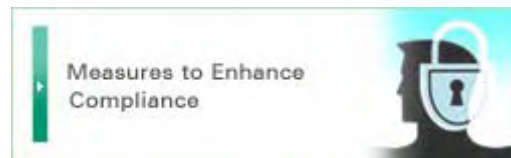
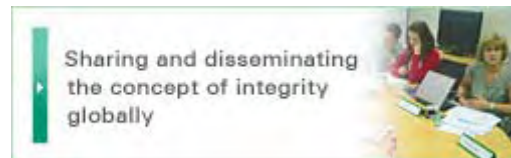
The CSR Department distributes the latest Kao CSR Report to employees of domestic and overseas Kao Group companies every year to help them understand Kao Group's CSR activities. We also ask employees in supervisory positions to encourage their subordinates to read the report.

In fiscal 2009, we distributed the Kao CSR Report to approximately 23,000 domestic Kao Group employees and 1,500 overseas group employees. In addition, we conduct a survey on the Kao CSR Report every year to evaluate the level of employee awareness of CSR and help us improve the report. Approximately 1,000 employees, selected at random from individual group companies, are surveyed each year.

In fiscal 2009, since the Kao Environmental Statement was mentioned in the Top Message and the feature article sections, we received more positive feedback, expressing a greater understanding of Kao's attitude and enthusiasm as shown in its Environmental Statement. On the other hand, we also received requests for more specific activities and examples, as well as information on overseas Group companies.

Compliance

Kao holds up the principle of integrity, passed down from the company's founder, as one of the core values of its corporate philosophy, the Kao Way. "Integrity" means to behave lawfully and ethically and conducting fair and honest business activities. Kao regards this word as the starting point of compliance and sets it out as guideline to be followed so that it may continue to earn the respect and trust of all stakeholders.



Kao's Business Conduct Guidelines


Implementing Kao's Business Conduct Guidelines

Established in 2003, Kao's Business Conduct Guidelines (BCG) sets clear standards of behavior, based on the principle of integrity, that employees are expected to abide by in the conduct of their daily duties. In preparing the BCG, we referred to documents like Nippon Keidanren's Charter of Corporate Behavior. Since their establishment, we have regularly reviewed the contents of the BCG to reflect Kao's participation in the UN Global Compact and changes in the social environment.

For the Kao Group, we have introduced the BCG or other equivalent codes of conduct based on the BCG within all domestic and overseas Group companies.

Kao's Business Conduct Guidelines (fundamental rules)

1. Ensure the Safety and High Quality of Products
2. Thoroughly Consider the Environment and Safety
3. Maintain Fair and Honest Transactions
4. Respect Employees' Individual Human Rights and Diversity, and Maximize Their Potential
5. Pursue Profitable Growth and Accommodate Shareholders' Expectations
6. Maintain a Fair, Open and Exemplary Corporate Position
7. Strictly Manage Information and Assets
8. Contribute to the Enrichment of Society through Activities that Make a Social Contribution
9. Respect Cultures of Individual Countries and Observe Laws and International Rules When Conducting Business Activities
10. Draw a Distinct Line between Business and Private Matters
11. Executives and Managers Shall Acknowledge Responsibilities

▶ [Corporate site - Company Profile - Compliance - Kao's Business Conduct Guidelines](#)


Sharing and utilizing various internal rules and guidelines on the intranet

Various internal rules and guidelines that are useful in putting BCG into practice are available on the intranet at Kao and its domestic Group companies.

As of the end of March 2010, 486 rules have been posted. We will also make the rules of Kao's overseas Group companies available in the future.

TOPICS**Kao revised its guideline on avoiding conflicts of interest to reflect changes in the social environment**

In 2001, Kao formulated a guideline to prevent the occurrence of any conflict of interest between employees' activities and the company. This guideline is positioned as the specific standards concerning one of the fundamental rules of the BCG, "Draw a Distinct Line between Business and Private Matters."

As eight years had passed since the enactment of the guideline, in July 2009, we revised it and reminded the employees of the contents with the aim of reflecting changes in the social environment and clarifying some parts of the guideline.

Major revisions include "employees who participate in meetings of industry groups shall provide notification to that effect each time," "remuneration for intellectual activities including work-related lecturers shall belong to the company as a general rule," and "additional items to which employees should follow concerning their activities on social media, such as Internet and blogs."

Sharing and disseminating the concept of integrity globally

Progress of Integrity Workshop at Kao Group companies

Kao promoted the implementation of the BCG or the equivalent codes of conduct (adapted to the circumstances or conditions of each locality and region) based on the BCG at domestic and overseas Kao Group companies and completed such implementation at all Group companies by fiscal 2007.

In fiscal 2009, we started the roll out of the first session of the Integrity Workshop for managers that conducted the pilot runs at four Group companies in the Asian region in fiscal 2008. Specifically, we revised each company's BCG (Fiscal Year 2008 version) and prepared for the set up of the external hotline, the "Integrity Line," with the assistance of an external service provider. In parallel with these activities, in July, we conducted training for those who manage the Integrity Workshop at each company. Later in August, under the leadership of the facilitators of individual companies, the workshops were conducted in the Philippines, Thailand, Vietnam, Hong Kong, Taiwan, China, Indonesia, Singapore, and Australia.

At first, the Integrity Workshop dealt with 11 case studies that took local cultures and customs as well as the unique characteristics of each company's business into account. By the end of the roll out in Asia, a total of 34 case studies were created as case studies relevant to their business. At each workshop, approximately 20 case studies were introduced and discussed. In fiscal 2010, we will take the Integrity Workshop at each of Asian Group companies several steps further to cascade down to non-managerial employees, while we plan to commence the training at our Group companies in North America and Europe.



Training at Kao Vietnam Co., Ltd.



Training at Kao (Taiwan) Corporation

Compliance Promotion and Check System

Establishing a Compliance Committee

Kao has established a Compliance Committee, chaired by an Executive Vice President and comprised of representatives of relevant divisions and affiliates. The Compliance Committee discusses and implements the establishment and revision of the BCG, activities to promote the wider implementation and establishment of corporate ethics both domestically and outside of Japan, the operation of the compliance hotlines and the review and monitoring of hotline responses. The committee reports important matters and its decisions to the Board of Directors.

There were no significant violations of laws by any Kao Group companies in fiscal 2009.

Secretariat meeting of the Compliance Committee

The Compliance Committee has established a secretariat and holds a secretariat meeting every month. At the meeting, members of the secretariat review and discuss the responses to inquiries made to both internal and external hotlines, consider new efforts to promote compliance and make plans to provide compliance education.

Implementing compliance audits and monitoring

At the Kao Group, internal audits on compliance are conducted by the Kao Global Internal Audit, and the following monitoring is regularly conducted.

Self-appraisal of individual divisions

Compliance Committee members of individual divisions conduct self-appraisals concerning whether or not there are any violations of the BCG and the progress of activities to promote compliance in their own divisions once a year.

Employee opinion survey "Find"

The Kao Group conducts a global employee opinion survey, "Find," every other year to monitor the status of compliance among employees.

Supplier satisfaction survey

Kao conducts a business partner satisfaction survey on a regular basis, targeting suppliers and other business partners.

Self-check exercises at compliance seminars

Seminar participants are required to do self-check exercises to improve compliance awareness.

TOPICS

Kao was named as one of the “World's Most Ethical Companies” for the fourth consecutive year

Kao was selected as one of the “World's Most Ethical Companies” by American ethics magazine, Ethisphere, for four consecutive years since 2007 when this survey was inaugurated. The survey was conducted by the magazine's publisher, the Ethisphere Institute, an American think-tank specializing in business ethics and corporate social responsibility, targeting companies from 36 different fields in more than 100 countries throughout the world, based on seven evaluation points, including CSR-related activities and corporate governance. Kao is the first Japanese company to be named for four consecutive years, and even among the global companies not so many have made the list that many years in a row.



▶ “2010 World's Most Ethical Companies” of the “Ethisphere Institute” www.ethisphere.com

Measures to Enhance Compliance

Conducting compliance workshops on a regular basis

Kao conducts compliance workshops for graduate hires, mid-career hires, newly appointed managers, and presidents and plant heads of overseas affiliates to be dispatched from Japan. Seminar participants learn about Kao's policies regarding Integrity, the BCG, and internal and external rules and regulations relevant to their duties.

Alongside the regular lectures, the seminar for newly appointed managers includes a practical section using the case study method* in which participants discuss how to make decisions in specific situations.

In August 2009, we held a study meeting run by a lawyer targeting Directors and Corporate Auditors. The meeting, entitled "Business judgment and practice of governance - The functions that the Board of Directors should fulfill," provided participants with an opportunity to learn about issues related to governance and compliance.

*** Case study method**

A method of training whereby seminar participants analyze and decide the appropriate courses of action when facing a dilemmas.

Sharing case studies over the intranet

Every two months, Kao used to post a case study involving a real company on its intranet to raise awareness about the issues surrounding compliance and help employees to improve their understanding of laws and internal regulations. Employees were urged to read these case studies and draw lessons from them. Replacing these, we now post two three-minute video clips on the intranet each month under the title, "Let's learn about compliance through mini-series". This has been happening since October 2009.

Providing compliance education using mobile phones

Kanebo Cosmetics Inc. provides beauty counselors with a compliance education program using mobile phones. This program delivers case studies and Q&A in relation to compliance once a month with the aim of preventing situations that may lead to the loss of customers' trust. Through the intranet, all employees besides the beauty counselors can also view the contents of the program.



Compliance-related information is distributed to a mobile phone.

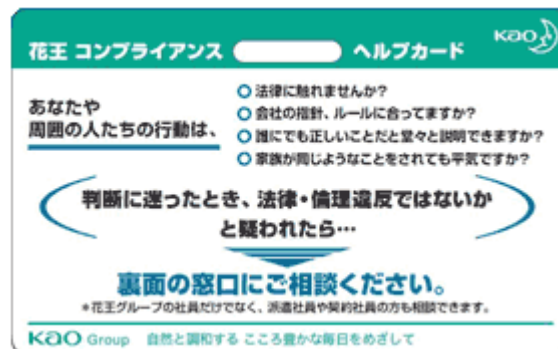
Establishing compliance hotlines

The domestic Kao Group companies have established both internal compliance hotlines ("Help Line" at Kanebo Cosmetics) operated by the Compliance Committee secretariat members and external hotlines operated by outside specialists, including lawyers and external counselors, to provide a means for reporting compliance-related matters, including legal or ethical violations. All of these hotlines accept reports and inquiries not only from Kao Group employees in Japan, but also from related parties, including our domestic business partners. During the consultation process, the identities of callers are strictly protected. In addition, proper consideration is given to ensure that callers are not disadvantaged as a result of the consultation, and when it is necessary to confirm details with a third party the caller's approval is first sought. Moreover, people contacting the hotlines by e-mail will get a reply (receipt of report or consultancy and plan of measures) within 24 hours.

By the end of December 2007, all of Kao's overseas Group companies had internal hotlines in place. Additionally, since May 2007, we have been successively establishing external hotlines (known as "Integrity Lines") operated by service providers who respond to each inquiry in the caller's own language 24 hours a day, 365 days a year. In fiscal 2009, an average of 18 reports was received per month (including at overseas Kao Group companies), however, none of them were serious.

Distributing Compliance Help Cards

Kao distributes a Compliance Help Card to all its employees and requires them to carry it at all times in Japan. The Compliance Help Card is designed to be referred to in any work situation in which an individual employee is unsure of the correct course of action. The card also introduces the contact details of internal and external consultation hotlines. In fiscal 2009, the redesign of the employee ID Card enabled all employees of domestic Kao Group companies to carry the Compliance Help Card at all times.



Compliance Help Card indicating the contact details of internal and external consultation hotlines

Establishing the "Legal Expert" system

To help ensure thorough compliance in our daily activities, Kao Corporation has established its own "Legal Expert" system.

"Legal Experts" are Kao employees with a firm grasp of domestic laws related to specific businesses who closely monitor trends in legislative amendments and related issues, and when necessary, promote the dissemination of information through means such as internal seminars. When employees are faced with a question of whether some aspects of their work are legal or not, they turn first to these legal experts. As of the end of March 2010, legal experts are appointed for 335 laws.

In fiscal 2009, Legal Experts conducted relevant activities regarding the revision of various laws and regulations, including the Industrial Safety and Health Law, Fire Service Law, the Act on the Evaluation of Chemical Substances and Regulation of their Manufacture, etc., the Pharmaceutical Affairs Law, the Foreign Exchange and Foreign Trade Control Law, the Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof, the Food Sanitation Act, the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, the Securities Listing Regulations, and the Ordinance for Enforcement of the Companies Act.

Establishment of a system to avoid infringement of the intellectual property rights of others

Kao retains "intellectual property rights", including patents, design rights and trademark rights covering new technologies, product concepts, product items, and brands, which are utilized for advancing its business activities.

Patents in particular are an index of corporate value seen from the perspective of technological development capacity. Our Intellectual Property Center takes the lead in promoting the strategic application of patents in a wide range of fields, while Brand Legal Management, Global is in charge of application and management of design and trademark rights (part of the design rights are managed by the Intellectual Property Center) in close cooperation with the related business divisions.

Kao also actively pursues the acquisition of intellectual property rights in foreign countries, and in case infringement occurs whether in Japan or abroad, Kao is prepared to take rigorous action against such violations of our own intellectual property rights in accordance with domestic and overseas laws. In recent years, we have focused on dealing with the problem of counterfeit goods in Asia.

In the meantime, Kao strives in its established system to respect third party companies' rights and avoid infringement of them from the initial stage of R&D during the product development stage. Furthermore, Kao reconfirms the third party companies' rights before the launch of new products and new packages for the prevention of infringement.

Promoting compliance activities in product labeling and advertising

When launching new products, Kao always strives to ensure factual and fair labeling containing appropriate wording that complies with relevant laws and regulations and does not to give a false impression to consumers/customers. To this end, we have established and are operating on the following check systems.

- For the labeling of cosmetics and food products, we have established a commercialization support system and check the appropriateness of ingredient labeling.
- For the labeling of and instructions for consumer products, we operate the Approval Circulation System in which several divisions, including our divisions in charge of consumer relations, trademarks, and pharmaceutical affairs, check labels to ensure that they comply with relevant laws and that the wording used is concise and easy to understand.

For product advertising, we hold a meeting attended by representatives from our divisions in charge of advertising, product development, and marketing, etc. In addition, we require our sales staff to operate in compliance with relevant laws with regard to all advertising activities, including negotiations and point-of-purchase activities.

Information Security and Protection of Personal Information

Establishing management systems for trade secrets and personal information

Kao has established Guidelines on Handling Trade Secrets, Kao Guidelines for Handling Personal Information, and IT Security Guidelines, based on its Information Security Policy to ensure business activities are carried out in accordance with the relevant laws.

The Information Security Committee, divisional members for protection of trade secrets (TS), and supervisors who handle personal information are required to ensure comprehensive information security management when performing their respective roles. Kao provides these personnel with necessary training and education on an ongoing basis. At overseas Kao Group companies, various information management systems are also being established based on Kao's domestic efforts.

Kao strictly protects personal information in accordance with the guidelines produced by the Japanese Ministry of Economy, Trade and Industry. When transactions involve outsourcing of operations, including handling of personal information, to other companies, Kao exercises thorough oversight of such companies by means of detailed execution of contracts and auditing procedures.

Pursuant to the Japanese Ministry of Health, Labour and Welfare's guidelines, the personal information of Kao employees in Japan is also managed properly.

Raising awareness of the risks of personal digital assistants (PDAs)

As an increasing number of people use PDAs, losses and thefts of mobile phones and personal computers are occurring more frequently than ever. At Kao, we have adopted a mechanism to prevent information stored in such devices from being retrieved even if lost. Kao also reminds employees that they should thoroughly protect confidential company information during travel to or from work and while on the move.

Implementing divisional self-patrols

In July and August of every year, divisional members involved in the protection of trade secrets and supervisors who handle personal information conduct voluntary investigations to examine the conditions under which trade secrets and personal information are managed within their own divisions. Issues uncovered as a result of these investigations are addressed at the Meeting on Trade Secret & Personal Information held the following September, and deficiencies are designated as problems to be solved during the next fiscal year.

The 16th Trade Secret & Personal Information Meeting

Each domestic Kao Group company has deployed divisional members for protection of trade secrets (TS) and supervisors who handle personal information and regularly holds study meetings to promote the protection of trade secrets and personal information. In fiscal 2009, we held the 16th Trade Secret & Personal Information Meeting and introduced a new security system using a data exchange server for the prevention of information leakages. We implemented the new system in December 2009.



The 16th Trade Secret & Personal Information Meeting

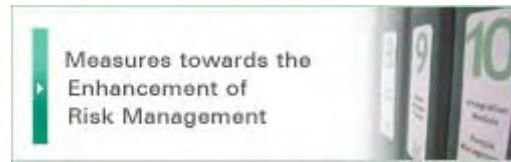
Promoting efforts to improve the level of personal information management

Healthcare Committee Inc., a Kao Group company which provides health-related solution services based on preventive medicine to health insurance associations, has independently acquired a PrivacyMark.

Kao will further endeavor to improve the level of personal information management.

Risk Management

To implement Kao's corporate philosophy of *Yoki-Monozukuri*, measures to deal with various possible risks associated with the entire scope of our business operations are formulated. These risks are then appropriately controlled to reduce their effects and the frequency of their occurrence. At the same time, consideration must be given to measures to minimize damage in the event that a potential risk actually eventuates. Kao conducts risk management based on the Kao Risk Management Policy by specifying priorities in managing and addressing risks. Our four priorities are: (1) Protection of human life, (2) Environmental conservation, (3) Continuation of operations, and (4) Protection of assets.

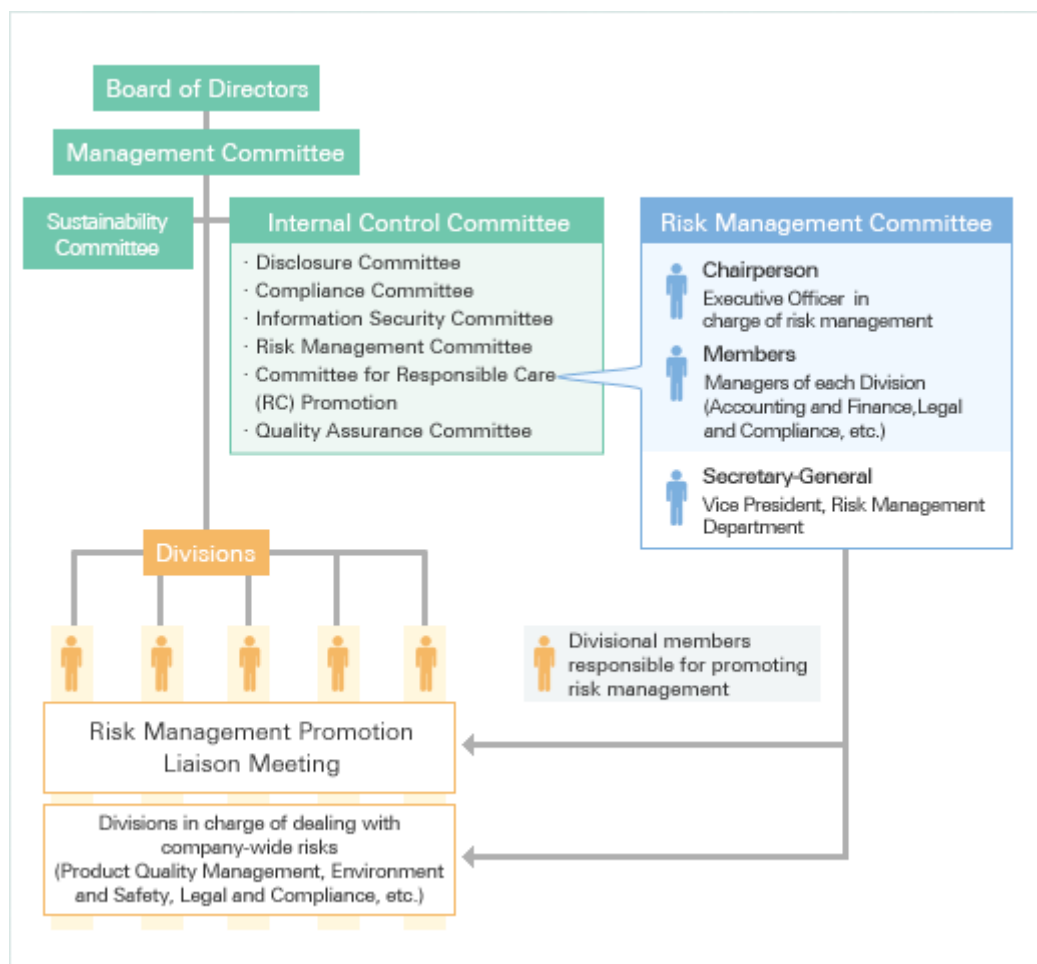


Risk Management System

Establishing a company-wide risk management system

Kao's Board of Directors regularly checks and oversees the company-wide risk management system and determines basic policies for dealing with major risks. Strategic management risks in particular are analyzed in advance by the relevant divisions and countermeasures are developed. Where necessary, the Management Committee and the Board of Directors check and oversee these risk countermeasures. With regard to operational risks, each division designates a dedicated staff member responsible for promoting risk management and conducting ongoing risk management activities, including the confirmation and evaluation of risks and the consideration of measures to address them. In this way risks are identified, the likelihood of their occurrence is reduced, and damage is minimized in the event that they do occur.

Risk Management System



Promotion of the PDCA cycle of risk management

Kao has established the Risk Management Department which promotes the PDCA (Plan, Do, Check, and Act) cycle of risk management in order to identify the status of each division's risk management, support its improvement, and enhance risk management from cross-divisional and cross-group perspectives. We also decide on annual themes to be focused in the course of our risk management efforts.

In fiscal 2009, we conducted an appraisal of the results of risk reduction activities using a company-wide unified evaluation axis. Regarding responses that were not fully effective in reducing risks, we took further measures to reduce risks. In fiscal 2010, we will continue to promote risk control throughout the entire company's operations, for Product Quality Management, Environment and Safety, and Law and Compliance, in order to grasp significant risks and manage them appropriately.

Measures towards the Enhancement of Risk Management

Promotion of surveys and quantification of major risks

By way of promoting company-wide risk management, Kao promotes investigation and quantification of major risks related to individual divisions every year, and draws up new divisional countermeasures. In addition, we develop various scenarios that could potentially have a significant impact (eg: plant shutdown during a disaster and spread of infectious disease) and estimate the amount of damage and impact. Based on this information, we recognize the impact on our operations and plan and implement necessary measures to deal with individual risks.

Sharing cases and information concerning risk management

The Risk Management Promotion Liaison Meeting, which is held three times a year, introduces model cases of risk management activities and risks that developed into actual incidents within and outside the company to divisional members responsible for promoting risk management in order to increase each division's risk management awareness.

In fiscal 2009, we studied cases and exchanged information on the following themes to improve the level of risk management.

- Treating the continuation of operations and achievement of business goals as the main priorities and disseminating the concept of recognizing certain possibilities that could hinder individual division's operations as significant risks.
- Reviewing internal and external risk cases.
- Improving the awareness level of the response to swine flu (H1N1) through lectures by outside consultants.

Enhancement of the management system for risks requiring emergency response and the formulation of Business Continuity Plans (BCP) *

Kao identifies risks needing urgent attention, including risks of accident and disaster as well as risks related to product defects, and has established and promotes various risk management systems in which the protection of human life is prioritized. To enhance initial responses to threatening events, we review our systems for dealing with accidents, disasters, problems with products, network system problems, infectious diseases and so on and make efforts to improve them.

In fiscal 2009, we formulated new Business Continuity Plans (BCPs) to deal with large-scale earthquakes for three plants and reviewed the existing BCPs for the other plants. At the Wakayama Plant and the Kawasaki Plant, our leading manufacturing bases in western and eastern Japan respectively, we conducted training exercises to prepare for a large-scale earthquake, including initial responses and subsequent recovery operations based on the BCP. Through these exercises, we identified the problems and reviewed necessary actions to be taken when disasters occurred. In fiscal 2010, we will formulate new company-wide BCPs to respond to wide-area disasters and conduct related drills.

In response to the global outbreak of swine influenza (H1N1) which started in Mexico at the end of March 2009, Kao established countermeasures headquarters at both domestic and overseas Kao Group companies immediately after the outbreak. We endeavored to prevent infection and the spread of infection by implementing thorough hygiene control (hand washing, wearing masks, etc.), regulating the movement in infected countries and regions, requiring employees who are suspected of having contracted the H1N1 virus to stay home, and other measures. In addition, we reviewed the guidelines manual for dealing with the new type influenza, while we also formulated Kao's basic business continuity policies from the perspective of corporate social responsibility to establish a system for continuing production and sales of essential goods for daily living and which are necessary in the event of an influenza pandemic.

▶ [Responsibilities to Stakeholders - Responsibilities to Employees - Occupational Safety, Process Safety and Disaster Prevention - Drills for large-scale disasters](#)

* BCP (Business Continuity Plan)

A plan for predetermined procedures to ensure important operations and functions are maintained or resumed in the shortest possible time in the event of interruption due to various events.

Promotion of risk management activities at overseas subsidiaries

The operational risks faced by our overseas subsidiaries have been adequately controlled through the risk management activities conducted by the headquarters in Japan as well as our overseas subsidiaries. We provide risk management training, including local risk information and emergency responses, at the headquarters to newly appointed presidents and plant managers who are to be transferred from Japan to overseas subsidiaries. We also provide overseas subsidiaries with emergency response guidelines including the emergency reporting network headed by the headquarters and other guidelines to deal with various risks.

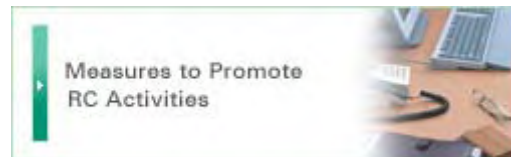
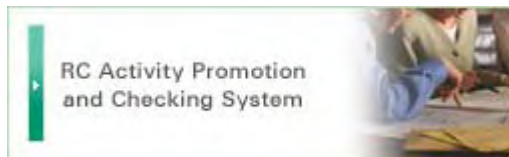
Under the scope of the global development of risk management activities, in fiscal 2009 we conducted a risk survey at our 17 overseas subsidiaries by adjusting the self-appraisal level of the scope of targeted risks and risk reduction measures to that of Kao Japan. Based on the survey results, each company prepared a risk map, assessed significant risks and formulated measures to reduce risks.

In fiscal 2010, based on the results, we will implement risk management activities mainly focusing on the reduction of significant risks at individual overseas subsidiaries and the response to risks that will have an impact on global supply chains.

Responsible Care (Environmental/Safety) Activities

Kao is committed to securing the safety of all stakeholders, including consumers, and promoting environmentally friendly activities throughout the product life cycle, from product development, procurement of raw materials, production, distribution, sales and use to disposal. To achieve this, Kao has established the Environment and Safety Division and promotes activities in line with the underlying concepts of the Responsible Care (RC) initiatives, the chemical industry's initiative for self-managed activities directed toward environmental preservation and safety.

These activities are pursued by individual divisions focusing on the basic five elements of RC activities: "Environmental conservation," "Process safety and disaster prevention," "Occupational safety and health," "Chemical and product safety," and "Distribution safety." In addition, based on the additional element of "to conduct dialogue with society," individual divisions endeavor to make these activities more effective through dialogues with their own stakeholders.



RC Activity Promotion and Checking System

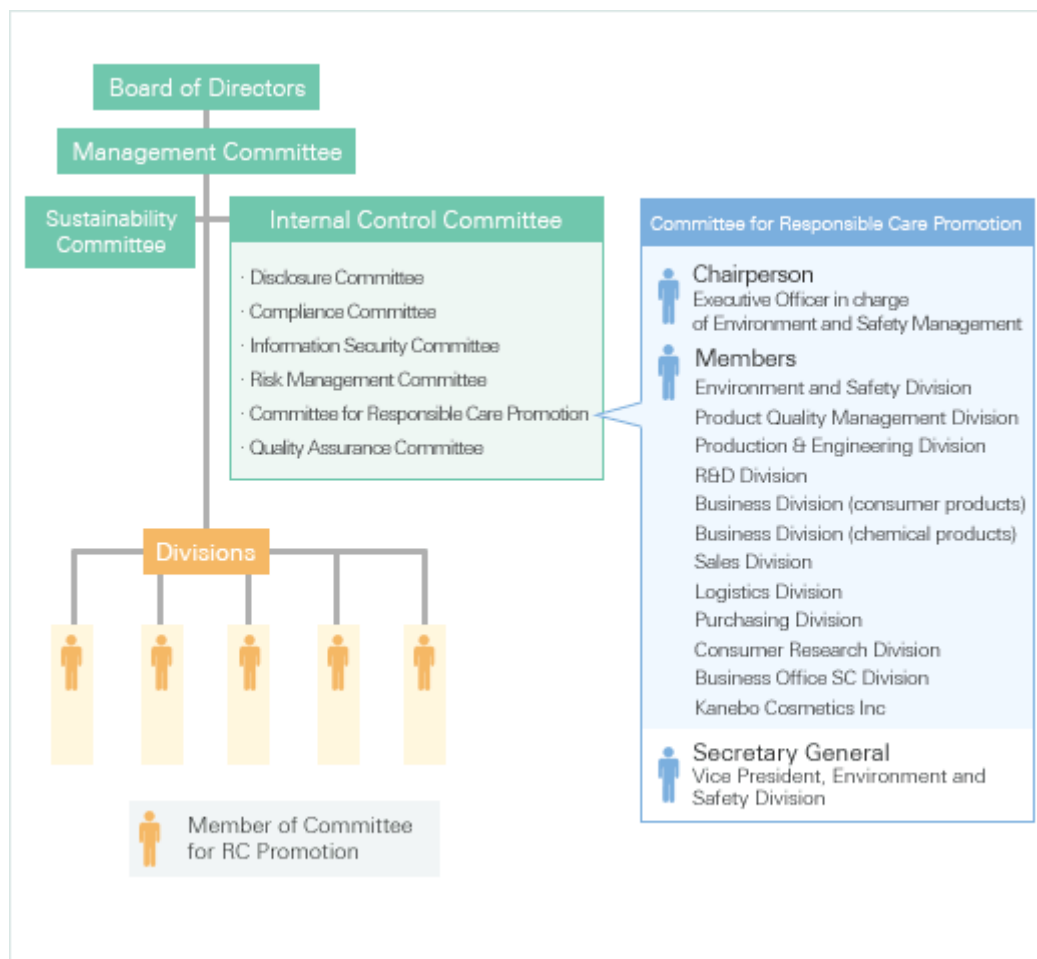
RC promotion system

Kao holds meetings of the Committee for Responsible Care Promotion in December each year to regularly manage the progress of the PDCA cycle for RC activities. The Committee for Responsible Care Promotion, one of the committees that constitute the Internal Control Committee, consists of 12 members, 10 of whom each represents the 10 divisions and business corporations that promote RC activities within the domestic Kao Group, plus representatives from the Environment and Safety Division and the Product Quality Management Division, and is chaired by the Executive Officer in charge of Environment and Safety Management.

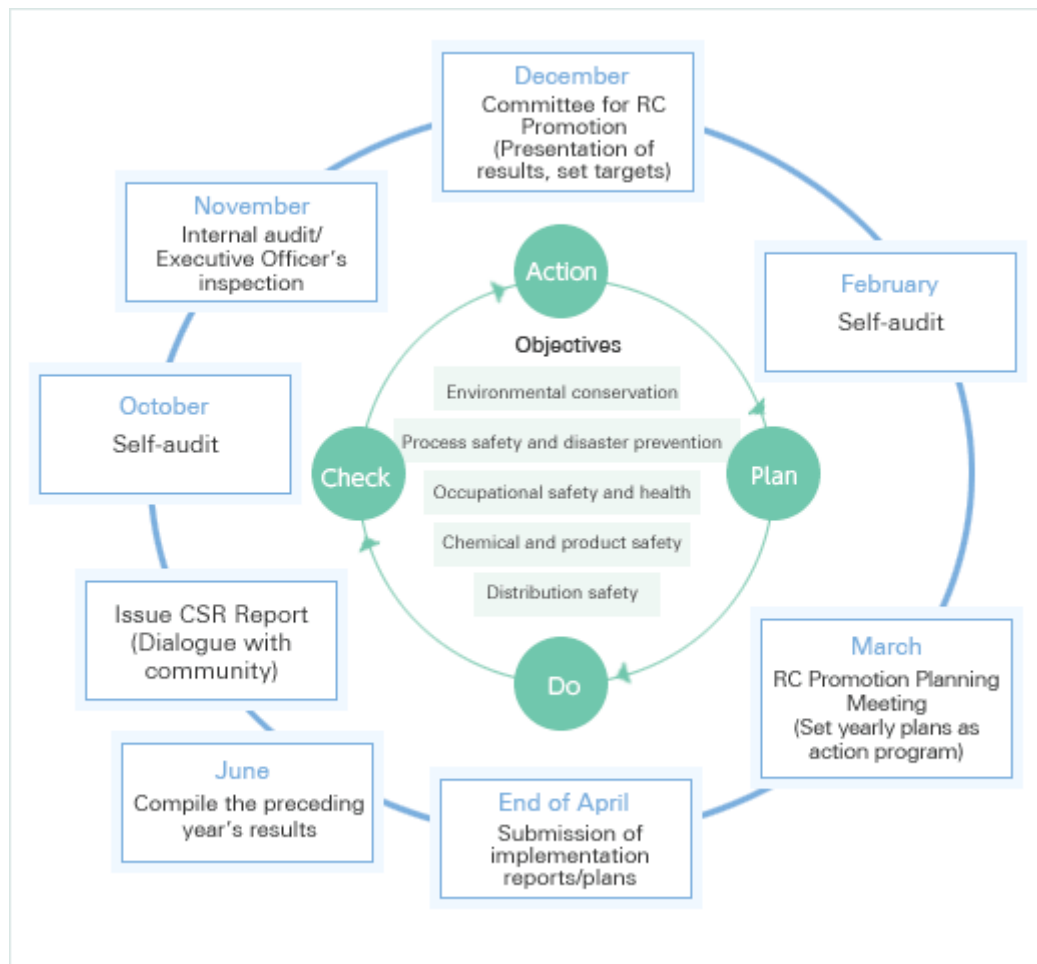
The Committee for Responsible Care Promotion discusses measures for ensuring a complete understanding of the RC philosophy and reinforcing the RC management system. The Committee also discusses the following fiscal year's targets for RC activities based on the results of the internal audit that is carried out every November. The RC Promotion Planning Meeting is held every March to deliberate each of the draft plans submitted by the individual divisions in charge of RC promotion.

Based on the outcomes of these meetings, activity units established within the individual divisions in charge of RC promotion play a central role in attempting to improve their divisions' RC activities.

RC promotion system



Annual Schedule for RC Activities



Utilization of environmental safety database

Kao has established the Comprehensive Management System for Chemical Substances to manage chemical substances in an appropriate manner, and the Environmental & Safety Data Management System ("Kanchian" System)^{*1}, an environmental and occupational safety database, to reduce the environmental impact and decrease the number of occupational accidents, and operates them across the Kao Group.

These systems have increased the accuracy and speed of management activities conducted to ensure compliance with the PRTR Law^{*2} and the issuance and management of MSDS^{*3}. In addition, the use of data on the environmental impact of the Kao Group as a whole and information concerning its occupational accident reports have allowed us to automatically calculate greenhouse gas emissions and the frequency of occupational accidents.

▶ CSR Management - Integrated Management of Chemical Substances Overview of Kao's Comprehensive Management of Chemical Substances

^{*1} Environmental & Safety Data Management System ("Kanchian" System) Data shared among the Kao Group under this system includes those related to energy consumption, greenhouse gas emissions, soot and dust emissions, wastewater amounts, wastewater concentration measurements, soil and groundwater measurements, PRTR material amounts and emissions, waste materials generated, discharged and finally disposed of, occupational accident statistics, traffic accident statistics and more.

^{*2} PRTR (Pollutant Release and Transfer Register)
Abbreviation of Pollutant Release and Transfer Register. The PRTR Law aims to encourage businesses to take ownership and improve their management of chemical substances, thereby preventing environmental damage.

^{*3} MSDS (Material Safety Data Sheet)
Abbreviation of Material Safety Data Sheet(s), documents that provide 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.

Conducting RC auditing

The Responsible Care Promotion Office annually implements internal audits of RC activities conducted by the individual divisions in charge of RC promotion in November to determine their progress and challenges to be addressed. In addition, the individual divisions conduct self-audits of their activity units. These results are reported to management at the Committee for Responsible Care Promotion meeting held in December each year and utilized in the formulation of the next fiscal year's policies and targets. In fiscal 2009, self-audits were conducted in October, and internal audits were conducted in November.

These audits identified no significant problems. However, since we were not able to confirm the status of implementation of RC education at one of our affiliates, which we asked them to in fiscal 2008, we requested them to take corrective action, including the preparation, implementation and recording of education programs.

Results of RC Internal Audits Conducted in Fiscal Year 2009

-	Production & Engineering	R&D	Business Units	Corporate	Affiliates
No. of questions	39	34	58	66	67
No. of items requiring continued observation	4	1	7	16	12
Average evaluation score (5-point scale)	4.85	4.94	4.86	4.80	4.73

List of Obtained Certification of ISO (Domestic)

As of March 2010

Kao/Affiliates	Offices and Plants	ISO9001	ISO14001
Kao Corporation	Wakayama Plant	○	○
	Wakayama Research Laboratories	-	
	Sumida Office	○	○
	Sakata Plant	○	○
	Tochigi Plant	○	○
	Tochigi Research Laboratories	-	
	Kawasaki Plant	○	○
	Kashima Plant	○	○
	Kashima Research Laboratories	-	
	Toyohashi Plant	○	○
Ehime Sanitary Products Co., Ltd.		○	○
Kanebo Cosmetics Inc.	Odawara Plant	○	○
	Cosmetics Laboratory/ Product Science Research Laboratory/ Basic Research Laboratory/ Technical Centre	-	
Kao Logistics Co., Ltd.	3rd Party Logistics Division	○	-

and Other Standards (Overseas)

As of March 2010

Affiliates	ISO9001	ISO14001	Other EMS
Kao Corporation Shanghai	○	○	-
Kao Chemical Corporation Shanghai	○	○	-
Kao (Taiwan) Corporation	○	○	-
Pilipinas Kao, Inc.	○	○	-
Kao Industrial (Thailand) Co., Ltd.	○	○	-
Fatty Chemical (Malaysia) Sdn. Bhd.	○	○	-
Kao Soap (Malaysia) Sdn. Bhd.	○	○	-
Kao Oleochemical (Malaysia) Sdn. Bhd.	○	○	-
Kao Plasticizer (Malaysia) Sdn. Bhd.	○	○	-
P.T. Kao Indonesia	○	○	-
P.T. Kao Indonesia Chemicals	○	○	-
Kao Specialties Americas LLC	○	-	RC14001
Kao Chemicals GmbH	○	○	-
Kao Corporation S.A	○	○	-
Quimi-Kao, S.A. de C.V.	○	-	Government Certification
Shanghai Kanebo Cosmetics Co., Ltd.	○	○	-

Measures to Promote RC Activities

Summary of the basic five elements of RC activities

Environmental conservation

Kao engages in the RC activities based on environmental standards and rules, including Provisions on CSR Procurement and Green Purchasing, Provisions on Comprehensive Management of Chemical Substances, and Standards of Product Design for Environment, and by operating systems like the Product Safety Study Meeting, and the Environmental & Safety Data Management System ("Kanchian" System).

Process safety and disaster prevention

In preparation for major disasters and accidents, Kao has established "Provisions on Process Safety and Disaster Prevention Management." Regarding specific disaster prevention activities and disaster responses, Kao has established the "Disaster Prevention Guidelines" and "Relief Aid Supply Guidelines." These guidelines provide policies and specific procedures for implementing local support activities and providing relief supplies, and allow us to provide rapid assistance to areas according to the needs in the event of a disaster.

Occupational safety and health

Together with the members of the health and safety committees at each Kao office and plant, we are improving the working conditions and facilities and providing safety education with the goal of eliminating occupational accidents. Particularly at plants, we conduct risk assessments of machinery and equipment and safety assessments of chemical facilities based on the Occupational Safety and Health Management System (OSHMS) as a part of proactive efforts to address sources of risk.

Chemical and product safety

Kao has established Provisions on Comprehensive Management of Chemical Substances and the Comprehensive Management System for Chemical Substances to manage product safety in a broad way, covering everything from chemical raw materials to consumer products.

Distribution safety

To prevent distribution-related accidents and disasters, Kao requires its own employees engaged in distribution as well as drivers of contracted transportation companies to carry a Yellow Card*. We also provide training sessions and conduct emergency response drills.

* Yellow Card

A Yellow Card provides toxicity information, emergency measures, parties to contact in case of an accident, and other information related to handling of chemical substance. It is intended to facilitate the rapid provision of information on environmental, safety, health and handling precautions to third parties, thereby preventing secondary disaster in the event of an accident during transportation.

Implementing continuous RC education

The Responsible Care Promotion Office and RC promotion staff of the individual divisions in charge of RC promotion regularly provide RC education on ISO and conduct occupational safety and health activities for Kao's employees and the staff of its business partners.

In fiscal 2009, 25 RC training sessions were held with the participation of a total of 341 people. We completed implementation of the "Skill-up seminar on verification of appropriate waste disposal condition" for field investigators, who verify the disposal conditions conducted by the commissioned waste disposer, in fiscal 2008 (241 participants in total).

Results of RC Education Conducted in Fiscal Year 2009

	Production & Engineering	R&D	Business Units	Corporate	Affiliates	Total
No. of training sessions	5	1	3	8	8	25
No. of participants	107	9	64	122	39	341

* For the domestic Kao Group

TOPICS

Kao Indonesia Chemicals received Silver Award

In December 2009, P.T. Kao Indonesia Chemicals, which manufactures and sells various surfactants for industrial use, received a Silver Award from the KN-RCI (Komite Nasional Responsible Care Indonesia), the Indonesian Responsible Care Association. The company was recognized for its continuous efforts toward Responsible Care, including the acquisition of the ISO9001 (Quality Management System), the ISO14001 (Environmental Management System) and the OHSAS18001 (Occupational Health & Safety Management System) and steady implementation of the PDCA cycle for improvement as well as its conversion of fuel from heavy oil to natural gas commenced in 2007 to reduce CO₂ emissions. In addition, P.T. Kao Indonesia Chemicals was highly evaluated for not only its development of the GHS (Global Harmonize System) activity to unify labels of chemical products on a global scale, but also for its active cooperation in promoting the GHS activity in Indonesia. P.T. Kao Indonesia Chemicals, is not taking this award for granted, but is encouraged to further continue its environmental and safety improvement activities and contribute to Indonesia's sustainable development.



Employee representatives of P.T. Kao Indonesia Chemicals, which received the Silver Award

Product Quality Management

Kao not only achieves "basic quality," including regulatory compliance and human and environmental safety, but also addresses product quality management from a wider perspective to achieve "attractive quality." For example, we label our products in such a way that customers can easily understand their effectiveness and feel confident when using them, including by providing clear instructions and precautions. We believe that this approach will eventually contribute to improving the quality of Kao's corporate management overall, such as with the establishment of a transparent management system and by doing all we can to ensure our accountability to stakeholders.



Product Quality Management System

Establishing a company-wide mechanism

Kao holds Quality Assurance Committee meetings three times a year to confirm the reliability and effectiveness of Kao's company-wide product quality management system. The committee, which consists of the Executive Officer in charge of Product Quality Management and representatives selected from the relevant divisions, determines important company-wide policies and measures regarding quality management.

Each business unit holds an annual Quality Assurance Meeting and confirms its quality management policy, quality-related problems, and the progress of quality management activities. In addition, each business unit holds a monthly Quality Improvement Study Meeting to discuss and implement the quality confirmation measures for new products and improved products and the quality improvement of products after their launch. Representatives of business units and corporate divisions, including Product Quality Management, also participate in meetings of the Quality Assurance Committee and each business unit. This ensures discussions are conducted in a balanced way from the two perspectives of "business unit" and "corporate division."

Conducting quality management audits

The Product Quality Management Division grasps audit activities concerning product quality management at the Kao Group and conducts quality management audits on an ongoing basis. The quality management audit is an initiative to determine audit themes and confirm that business, R&D and production divisions are conducting quality management activities in an appropriate manner. In the event that the audit uncovers problems, the Product Quality Management Division makes a thorough examination of the underlying factors, reviews the quality management mechanisms, and reports their findings at meetings of the Quality Assurance Committee, along with the results of audits covering the entire company. In fiscal 2009, the Product Quality Management Division set six audit themes and audited the R&D, production, SCM Center, and contract manufacturing management divisions.

As part of external audits that Kao underwent company-wide in fiscal 2009, we were inspected by prefectural governments concerning the authorization update of the manufacturing & selling business and manufacturing business in relation to the Pharmaceutical Affairs Act. As a result, we received authorization. In addition, external and internal audits of each plant's ISO 9001 systems as well as audits of contract manufacturers and raw materials producers were conducted.

Offering board member awards for product quality management activities

To activate product quality management activities, Kao has been offering board member awards for product quality management activities since fiscal 2000. In fiscal 2009, we expanded the targets to our Group companies in Asia and also introduced the “letter of appreciation” system for long-term low-key efforts in addition to giving awards.

We collect examples of excellent achievements related to product quality management from all divisions of the company. Representatives of the groups and teams that passed the first stage of selection by the Quality Management Center as the secretariat made presentations to the board members at the Quality Assurance Committee. Then, based on the content of the presentations, final examination is conducted. We will promote product quality management activities by shedding light on not only activities that made considerable achievements, but also low-key efforts.

Fiscal Year 2009 Board Member Awards

- Contribution to quality improvement in Asia by introducing the global Echo system
- Full check and standardization activities for F&HC manufacturing quality

Fiscal Year 2009 “Letter of Appreciation”

- Renovation activities of research, management and product systems
- Quality management of ingredients for quasi drugs and cosmetics based on voluntary GMP for cosmetics
- Kao (China) Holding Co., Ltd. - Establishment of a quality management system based on the packaging material quality improvement (PQM) project

TOPICS

Pilipinas Kao, Inc. received the Gold Award at the International Convention on Quality Control Circles

At the International Convention on Quality Control Circles held in October 2010, two teams that participated from the plant of Pilipinas Kao, Inc. as representatives of the Philippines, shared the Gold Awards. This convention is designed to provide an international platform for competitive presentation of quality improvement efforts based on QC circle activities at the production level. Since 1978 when the inaugural convention was held in Tokyo, the International Convention on Quality Control Circles has been held on a regular basis. Some 133 QC circles representing nine Southeast Asian countries participated in the 2009 event, splitting into smaller related groups to showcase their recent QC activities. The two teams that shared the Gold Award are the Quality Assurance Group and the Tertiary Amines Manufacturing Group of Pilipinas Kao. The Quality Assurance Group presented the QC activities named "FUSION targeting the complete elimination of all-purpose reagent inventory, and the Tertiary Amines Manufacturing Group introduced the QC activities named "AMINATORS 2" aiming to reduce the use of anti-foaming agents in the exhaust gas treatment equipment. These two teams worked tirelessly to improve the environment and reduce hidden waste found in daily work processes. These awards recognized the quality improvements achieved through diligent efforts on the part of employees.



Pilipinas Kao employees at the award ceremony



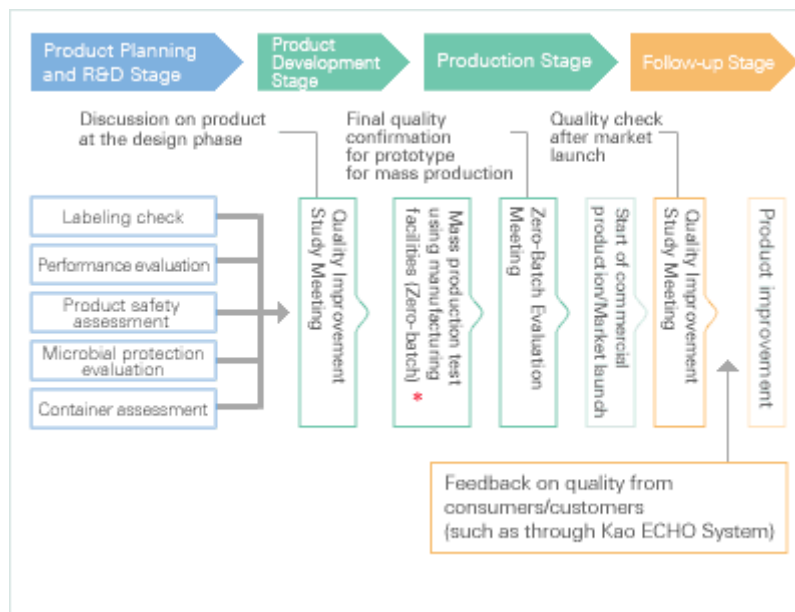
International Convention on Quality Control Circles Award

Quality Management Activities throughout the Entire Product Life Cycle

Pursuing quality throughout the entire product life cycle

In the pursuit of quality management, Kao has established an organizational product quality management system that includes the Quality Assurance Committee, Quality Assurance Meeting, and Quality Improvement Study Meeting. Kao also promotes quality management activities for individual products throughout the entire product life cycle from research, product development, production, distribution and sales to use, storage and disposal by consumers.

Quality Management Flow



* Zero-batch: Experimental manufacturing of a final prototype under actual conditions using the actual manufacturing equipment and containers

Introducing the Approval Circulation System Appropriate labeling confirmed by relevant divisions

Kao examines all statements and wording used on product packaging, including instructions for use, in terms of safety, legal compliance, and ease of understanding. To ensure the reliability of these examinations, we have introduced and operate Approval Circulation System under which each item to be examined for each product has been approved by all related divisions, including divisions in charge of consumer relations, trademarks, and pharmaceuticals.

Ensuring Product Safety

Pursuing safety through science and considerations of actual use

To confirm the safety of its products for people and the environment and ensure food safety, Kao has established its own strict standards and assessment procedures according to product characteristics. Based on these standards, our Safety Science Research Laboratories, which are independent from our product development and research divisions, implement scientific safety assessments of all materials and products.

Together with these assessments, to ensure safety during the actual use from product selection to purchase, use, storage and disposal, a Product Safety Study Meeting, which consists of representatives from the divisions related to product quality management, consumer communication, and fundamental research, is held to discuss issues that may arise for expected users of our products, including those related to product packaging, ingredients, characteristics, directions for use, warning labels, and the wording used in advertisements.

In addition, to minimize the suffering of animals, Kao Corporation and Kanebo Cosmetics Inc. have been collaborating with national research institutes and those belonging to other corporations in an endeavor to establish safety assessment methods and technologies that do not involve animal testing. With regard to a skin sensitization testing, we promoted and implemented joint research on the testing methodology using cells that we developed in collaboration with Shiseido Co., Ltd. and other companies. As a result, verification research on the testing methodology using cells has begun at an alternative method verification center in Europe. Additionally, Kao has been participating and playing an important role in several projects to develop new alternatives to animal testing that are being promoted by the European Cosmetics Association (COLIPA).

Through these efforts, Kao endeavors to achieve *Yoki-Monozukuri* on a daily basis. However, if unexpected problems, including a product quality issue, should arise, the Product Quality Management Division immediately judges the seriousness of the risk and the possibility of its spreading and reports to the top management and the relevant divisions. To fulfill our responsibilities as a manufacturer, such as social responsibility, product quality responsibility and accountability quickly and surely, we are endeavoring to enhance the system to deal with emergencies in an appropriate manner, including cooperation within the company and cooperation with external parties including administrative agencies, related organizations, and distribution partners.

► [Corporate site - CSR - Kao's Commitment to Product Safety and Quality Management](#) 

TOPICS

Providing a guideline to replace spray mechanisms in spray-type containers

With the increase in the use of refill products as a more environmentally friendly alternative, there is concern that age-related degradation of spray-type containers, whose spray mechanisms can be used repeatedly if empty bottles are replaced with new ones, will cause detergent to leak, resulting in adverse effects on the human body.

Kao is therefore promoting the improvement of the durability of spray-type containers. In addition, starting fiscal 2009 Kao now displays a guideline for replacing old spray mechanisms in spray containers of products that contain sodium hypochlorite.



"Liquid leaking from the lever is a sign of container degradation and is dangerous to the human body. Such spray-type products should be replaced."

Quality Management Activities for Food Products

Implementation of thorough product quality management from two perspectives

Kao's Human Health Care Business Unit implements a Health Care Food Business that provides healthy functional food products developed based on research on health functionality including lipid nutrient metabolism. So that these food products can be consumed with peace of mind, we work on product quality management from the following two perspectives:

1. In product development, we conduct research on the effectiveness and safety of products both independently and in cooperation with external nutritional and medical experts. Before launch, products are subjected to numerous evaluations.
2. We practice thorough quality management in the manufacturing and processing phases, and ensure traceability^{*1} that spans everything from original materials^{*2} to consumption.

^{*1} Traceability

To grasp the original materials, use, manufacturing history, and location of products and raw materials by using records.

^{*2} Original materials

Primary agriculture, livestock, and fishery products themselves. For example, soybeans are an original material of cooking oil.

Practicing "food defense"

As part of its daily quality management efforts, Kao tracks workers, goods and equipment and monitors its management system to check for abnormalities. This kind of management ties with the idea of "food defense" that aims to prevent food products from being harmed intentionally. Kao raises awareness of food defense and promotes the enhancement of the management system through continuous internal auditing activities including food defense even at its external contract manufacturers.

Implementation of management of "best-before" dates of food products

Kao determines "best-before" dates of its food products after building in an adequate safety margin based on the results of various types of storage tests, thereby setting clear periods within which consumers can enjoy our products without experiencing problems in quality or taste. To ensure these periods are adequate, we manage product freshness in our production and distribution phases, including the management of "best-before" dates of raw materials. Specifically, we make it a rule to deliver products to retailers no later than one-third of the way between the production and "best-before" dates and have built management and traceability systems based on production lot numbers.

Obtaining Certificates of Product Specification for all raw materials

Although Kao's food products are all produced and processed in Japan, some of the raw materials used in them are procured from other parts of the world.

To ensure the safety of these raw materials, Kao obtains from suppliers Certificates of Product Specification for all raw materials and checks the traceability information of original materials.

Since fiscal 2007, we have incorporated our data on food product materials into our Comprehensive Management System for Chemical Substances so that we can use it from the research and development stage. In addition, Kao audits its raw materials suppliers and meets with them to confirm the content of contracts and quality of their management systems.

Disclosing information on country of origin and allergenic substances contained in food products on Kao's website

Kao actively provides information regarding food product safety via its website and other channels in response to growing consumer interest in issues of food safety and security.

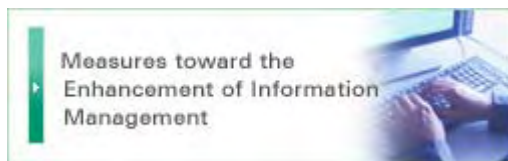
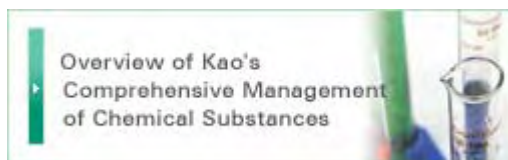
On our website, we list the ingredients of each of our products, as well as provide component analyses and warnings regarding allergenic substances. We are also prepared to respond quickly to inquiries about the country of origin of major ingredients and original materials. Since May 2009, in response to frequent requests, we have provided additional information on specific countries of origin on our website and other channels as a matter of course.

▶ [Ingredients, Containers and Safety Q&A](#) 

Integrated Management of Chemical Substances

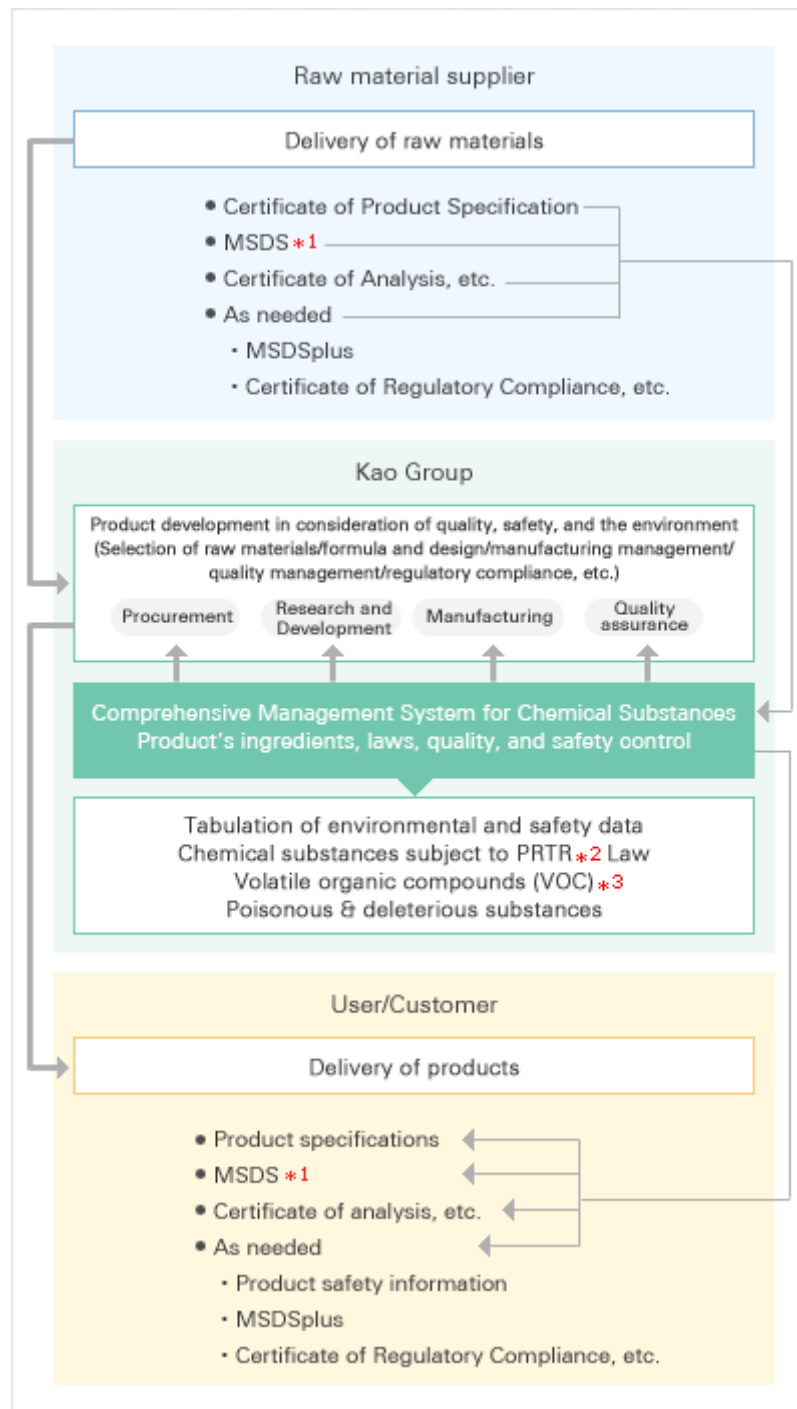
Kao has been operating the Comprehensive Management System for Chemical Substances since 2001 as part of its endeavors to confirm the quality and safety of products from different angles. The system compiles a database of individual products, materials, and ingredients by assigning the Kao Group's uniform identification codes to them. By using this system, we can instantly confirm information including the safety, antiseptic aspects, related laws and regulations for individual products, materials, and ingredients. If a problem with quality ever occurs, we can then immediately determine the extent of the impact.

This information is shared and used by individual divisions, including Purchasing, R&D, Production, Product Quality Management, and Environment & Safety, and is the backbone supporting our *Yoki-Monozukuri*. In addition, this system can automatically prepare the detailed product ingredient labels required by the Pharmaceutical Affairs Law, the JAS (Japanese Agricultural Standard) Law, and the Food Sanitation Act, minimizing the kind of mistakes that might otherwise be caused by human error.



Overview of Kao's Comprehensive Management of Chemical Substances

Overview of Kao's Comprehensive Management of Chemical Substances



*1 MSDS (Material Safety Data Sheet)

Abbreviation of Material Safety Data Sheet(s), documents that provide 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.

*2 PRTR (Pollutant Release and Transfer Register)

Abbreviation of Pollutant Release and Transfer Register. The PRTR Law aims to encourage businesses to take ownership and improve their management of chemical substances, thereby preventing environmental damage.

*3 VOC (Volatile Organic Compounds)
Abbreviation of Volatile Organic Compounds

Participating in Programs on Chemical Safety

Management of chemical substances in accordance with the SAICM

At the World Summit on Sustainable Development (WSSD) that was held in 2002, it was set as an international goal to “minimize adverse effects that the manufacturing and use of chemical substances have on human health and the environment by 2020” in view of the increased necessity for risk reduction methods and debates to make international activities more harmonized and efficient. In addition, as a policy framework to achieve the goal, the Strategic Approach to International Chemicals Management (SAICM) was adopted by the United Nations in 2006.

To fulfill our responsibility as a company that deals with chemical substances, Kao signed the Responsible Care Global Charter based on the concept of SAICM in 2008. In addition, Kao cooperates with governments around the world and industry organizations in promoting various activities, including the provision and report of safety data and active participation in consortia. We will continue to deepen these activities as the Kao Group including our overseas Group companies.

Efforts in accordance with the SAICM

- ▶ [Participating in the OECD HPV Program](#)
- ▶ [Participating in the Japan HPV Challenge Program](#)
- ▶ [Continuously improving and expanding the Comprehensive Management System for Chemical Substances](#)
- ▶ [Introducing a management system that is compliant with REACH at Kao Chemicals Europe, S.L.](#)
- ▶ [Preparing MSDS and labels compliant with GHS in Asian countries](#)
- ▶ [Continuous issuance of MSDSplus \(an information transmission sheet for specific chemical substances\)](#)
- ▶ [Implementation of global management of chemical substances](#)

Participating in the OECD HPV Program

The Organization for Economic Co-operation and Development (OECD) has been operating the safety assessment program of High Production Volume Chemicals (HPV Program) since 1992. This program requires OECD member nations to collect safety information concerning chemical substances that are produced or imported 1,000 tons or more per year. Kao has been actively participating in this program with Japanese and foreign sector peers since 1998.

Implementation of global management of chemical substances

Kao Corporation's CEO has signed the Declaration of Support for the Responsible Care Global Charter in order to enhance Responsible Care (RC) activities. As part of these efforts, Kao cooperates in promoting the global risk assessment and risk management of chemical substances in accordance with the basic concept of the "principle for enhancing global management of chemical substances (GPS)" promoted by the International Council of Chemical Associations (ICCA). Kao also cooperates in promoting a risk assessment program (JIPS*) that the Japanese chemical industry is newly working on. Kao will actively publicize appropriate risk information of chemical products that can be obtained from the JIPS.

* JIPS (Japan Initiative of Product Stewardship)

A risk assessment program to allow consumers and customers to use chemical products safely. To implement the risk assessment backed with sound scientific knowledge and the management of chemical products in accordance with their entire life cycle, data on hazard and risk information of chemical substances is input in this program.

Participating in ISO/TC217 Working Groups

The International Organization for Standardization (ISO*) sets global standards that help businesses and organizations to sidestep many of the issues that emerge in relation to national and regional standards, which can often be complicated and are not always regulated. Economic globalization and intensified competition in the area of technological development have made the ISO and its activities even more relevant in recent years. Kao participates in and cooperates with several working groups under the ISO Technical Committee 217 (Cosmetics) as a member of the Japan Cosmetic Industry Association. These groups are: "Microbiological test methods," "Packaging and Labeling" "Analytical methods," "Terminology," "GMP" (Good Manufacturing Practice) and "Sun protection test methods."

* ISO (International Organization for Standardization)

The ISO is an international organization that assesses industrial standards. It was established in 1947 and currently has a membership of 161 countries.

Participating in the Japan HPV Challenge Program

With the aim of providing safety information of chemical substances to a wide range of citizens, Kao has been participating in a "program for collection and provision of safety information of existing chemical substances (commonly called the Japan HPV Challenge Program)," which is a joint initiative of the Japanese Government and industry that commenced in April 2005. As of March 2010, Kao has registered as a sponsor for 13 substances (Kao alone for four substances, consortium for nine substances) and is evaluated as a company with the largest number of registrations in Japan.

Measures toward the Enhancement of Information Management

Continuously improving and expanding the Comprehensive Management System for Chemical Substances

To respond to the revision of domestic and foreign laws and regulations relating to chemical substances promptly, Kao is endeavoring to improve the labeling of chemicals in various languages compliant with GHS^{*1} and an information system that can prepare MSDSs.

In fiscal 2009, to deal with the amended Chemical Substances Control Law (Japan)^{*2} enforced in April 2010, Kao is promoting the establishment of a system to collectively manage Kao manufactured & imported substance volumes and their use information inside and outside the company. We will continue to promote “quicker research and development” and the “safe manufacturing of products” by improving the Comprehensive Management System for Chemical Substances.

^{*1} GHS (Globally Harmonized System of Classification and Labeling of Chemicals)

GHS is a system to classify chemicals by type and degree of hazard in accordance with internationally harmonized rules and to provide harmonized hazard communication elements, including labels and safety data sheets (MSDS).

^{*2} The amended Chemical Substances Control Law (Japan)

The amended Chemical Substances Control Law (Japan), which was enforced in April 2010, will require manufacturers and importers of chemical substances to report the quantity of manufactured and imported substances by use. Based on such data related to exposure as well as safety data for individual substances, the authorities will conduct risk assessment. As a result, if the risk is judged unacceptable, the manufacturers and importers of the substances will be required to take responses including quantity restrictions.

Introducing a management system that is compliant with REACH at Kao Chemicals Europe, S.L.

In response to the European REACH^{*} Regulation for chemical substances, in fiscal 2008, Kao Chemicals Europe, S.L., a company administering chemical production bases in Europe, introduced the Substance Volume Tracking System for managing individual substances. This system interlocks with the Comprehensive Management System for Chemical Substances.

^{*} REACH (Registration, Evaluation, Authorization and Restriction of Chemicals)

REACH EU Regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals

Preparing MSDS and labels compliant with GHS in Asian countries

In recent years, a number of Asian countries have begun to adopt GHS. Kao has responded to this by, starting in fiscal 2008, developing MSDS and labels compliant with the system using our Comprehensive Management System for Chemical Substances for chemical products destined for Taiwan and China, which are leading the implementation.

In fiscal 2009, we began preparing MSDS and product labels in traditional Chinese for chemical products to be exported to Taiwan. For products destined for China and South Korea that have introduced the GHS, we are promoting the preparation of MSDSs in those countries' respective languages.

Continuous issuance of MSDSplus (an information transmission sheet for specific chemical substances)

The Joint Article Management Promotion-consortium (JAMP)^{*1} promotes the spread of the MSDSplus, a basic information transmission sheet for specified chemical substances in order to manage information on such substances contained in products in accordance with global standards. This system is designed to urge users of the chemical substances to manage them in an appropriate manner by listing the “names of laws regulating the substances,” “existence or non-existence for the specified substances,” “names of the substances,” “CAS Number,” and “concentration” of the specified substances and ingredients contained in products on the sheet.

Kao, as a founding member of JAMP, actively participated in the establishment of a mechanism for the MSDSplus. Kao issued the MSDSplus Ver.2 ahead of the industry in May 2008. In December of that year, Kao issued the revised edition (Ver.3), which included substances in the Candidate List of Substances of Very High Concern (SVHC)^{*2} of the REACH Regulation, the auto-related GADSL (Global Automotive Declarable Substance List)^{*3}, and the JIG (Joint Industry Guideline)^{*4} related to electric and electronic devices as target substances to be managed.

In fiscal 2009, Kao continued to issue MSDSplus and endeavored to promote JAMP activities.

^{*1} JAMP (Joint Article Management Promotion-consortium)

JAMP was established in September 2006 as a body to promote cross-industrial activities to appropriately manage information on chemical substances contained in articles (synonymous with components and molded items) and smoothly disclose and provide such information throughout supply chains.

^{*2} SVHC (Substance of Very High Concern)

Substances of very high concern that are carcinogenic, mutagenic, reprotoxic, persistent, bioaccumulative, etc.

^{*3} GADSL (Global Automotive Declarable Substance List)

The GADSL is an internationally unified list of declarable substances that are contained in raw materials and components of automobiles.

^{*4} JIG (Joint Industry Guideline)

JIG is a guideline for disclosing information on contained chemical substances related to electric and electronic devices.

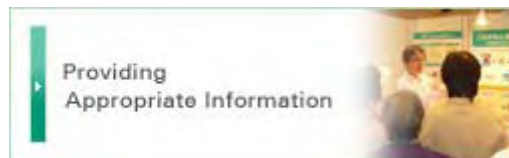
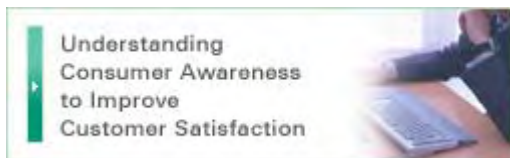
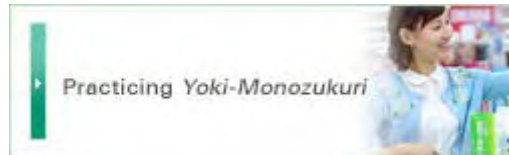
Responsibilities to Stakeholders

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Responsibilities to Consumers

As per its corporate mission and in accordance with our corporate philosophy, the Kao Way, Kao constantly strives for the wholehearted satisfaction and enrichment of the lives of people globally by conducting *Yoki-Monozukuri* based on the viewpoint of the consumer.

To fulfill this mission, Kao makes genuine efforts to listen to the consumer feedback while fine-tuning its outgoing communications. Consumer opinions obtained are reflected in the efforts we make to improve and develop our products and improve services.



Consumer Response System

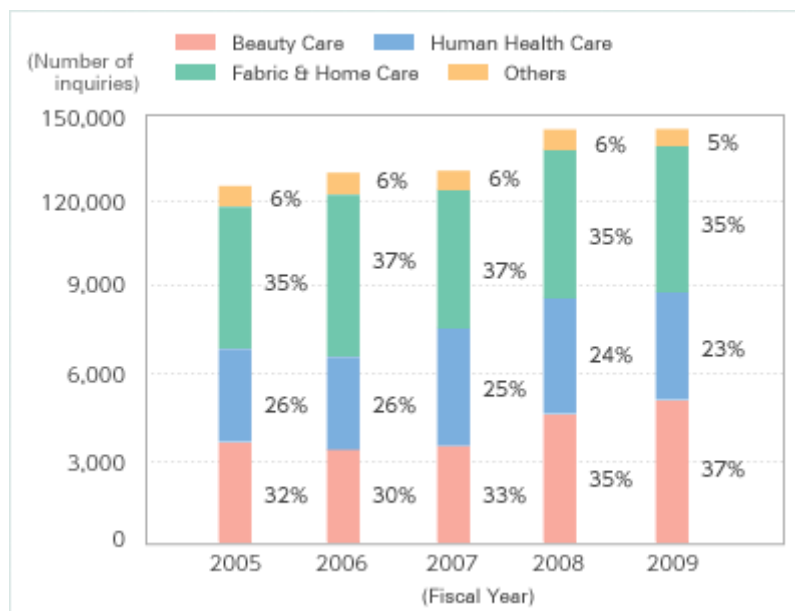
Kao's Consumer Communication Center: A direct link to consumers

Kao's Consumer Communication Center not only responds to specific comments and requests submitted by consumers in an "accurate, quick and courteous" manner, but does so in a way that enables us to gain a well-developed understanding of their general concerns.

In fiscal 2009, we received approximately 145,000 consumer inquiries by phone and e-mail, the same as in the previous year.

* Excluding inquiries related to the suspension of production and sale of *Econa* products.

Number of Consumer Inquiries (Data for Kao and Nivea-Kao)



Utilizing the uniquely developed Kao ECHO System at home and overseas

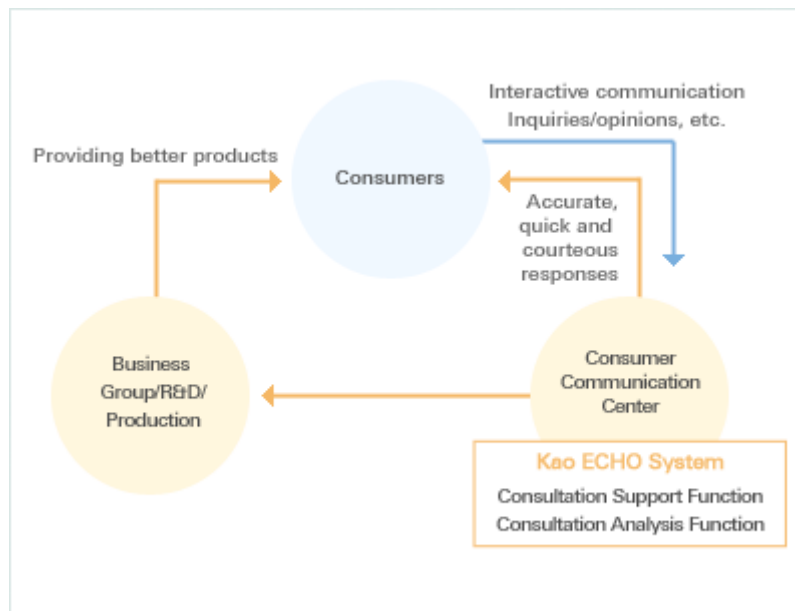
Kao developed its own database, the Kao ECHO System, in 1978. This system, which has been upgraded six times in the intervening years, enables effective communication between Kao and its general consumers and provides a foundation for the entire company to share and utilize consumer feedback.

The database stores a wide range of information on all Kao products, ranging from basic product information to improvement histories and daily life information. By accessing this information, staff at the Consumer Communication Center can respond to consumer inquiries in a prompt and appropriate manner.

In addition, while taking appropriate measures to protect personal information, the system makes a list of all consumer inquiries received each day and makes it available to all relevant divisions the next morning. Based on this data, individual divisions analyze the trends in inquiries, including the number of inquiries by product, and use the results in product development, marketing and production activities.

In January 2009, Kao introduced the Kao ECHO System at Kanebo Cosmetics Inc. and nine Group companies in Asia and Australia to share and utilize information among the Kao Group companies and to improve the level of customer satisfaction.

Mechanism to Reflect Consumer Voices in Products



Global promotion of *Yoki-Monozukuri*

Kao has been spreading the concept and method of conducting *Yoki-Monozukuri* by utilizing consumer feedback throughout its domestic and overseas Group companies. For example, in 2005 Kao launched an annual meeting to give consumer communications managers in Asia the chance to get together to exchange views and share techniques for improving responses to consumers and incorporating feedback. In addition, Kao introduced the Kao ECHO System in nine overseas Group companies. In launching the *Liese Bubble Hair Color* in Hong Kong and Singapore in 2009, the contents of inquiries in Japan concerning the similar products was conveyed, and training on how to respond to those inquiries were provided in the field. In this way, Kao is promoting activities for *Yoki-Monozukuri* by sharing consumers' opinions and ways to respond globally and in real time among the Group companies.



Joint Meeting of Consumer Communication and Product Quality Management Sections in Asia



Persons in charge of consumer communication from Group companies in Japan and overseas who participated in the meeting

Comments and requests received from consumers as a result of active efforts to maintain close communications are passed on to our product development, research, production, and other relevant divisions and reflected in *Yoki-Monozukuri*. Included among the many ways in which Kao uses consumer feedback to raise customer satisfaction are improving product performance, making containers easier to use, designing easy-to-understand labels, and developing useful and informative advertising.

We introduce product improvement cases that were stemmed from consumers' comments and requests on our website, in terms of product performance, usability of containers, labels, designs, etc.

[illegible]

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TOPICS

Showing how to remove the hair coloring agent from skin

In dying hair, hair coloring agent may cause a stain when it comes into contact with skin. Therefore, the instructions for our hair color products direct users to apply a water-repellent cream to skin around the face and ears so that the coloring agent will not directly come into contact with skin. It advises users that if the agent does come into contact with skin, it should be wiped off immediately. However, we received some feedback from users worried after they had mistakenly allowed the coloring agent to come into contact with skin. Thus, in the fall of 2009, we included in the instructions for *Blauné* foam hair color a method to remove hair color stains more effectively. To eliminate users' concerns, we specify that the stains will be erased after a few days of washing and bathing. We also advise the users not to rub their skin excessively to avoid skin damage.

If your skin has been stained

● **Do not rub strongly to avoid damaging your skin.**

- 1) Apply a make-up remover* such as a cleansing cream on the stained part. Massage well and remove it by tissue paper, etc.
 - 2) Lather up with a bar of soap* and wash the stained area, then rinse out.
 - 3) If the stain is hard to remove, scoop some soap studs with a cotton towel and gently massage the stained area, then wash out.
- *We recommend using a make-up remover and a bar of soap but if you don't have them, use a facial cleanser or body wash. Avoid letting the facial cleanser or body wash get into your eyes when using them.

Even though the stain may not be completely removed now, it will fade naturally by shampooing and bathing as usual.

Instructions for foam hair color

Understanding Consumer Awareness to Improve Customer Satisfaction

Conducting regular surveys to identify changes in consumer awareness

Kao conducts surveys on consumer awareness on a regular basis to accurately understand changing consumer trends.

The average age of consumers who consult with Kao's Consumer Communication Center has been getting older every year, and we found ourselves having rather difficulty knowing the concerns, opinions and needs of younger consumers. To address this problem, in our latest survey on consumer awareness, we included a new theme: younger consumers and their behavior. Survey results confirmed that young people are more likely to use the Internet to solve any questions they may have concerning a product and also use the Internet as a communication tool.

We also ascertained that the percentage of consumers who lay direct complaints with the company is relatively low across all age groups, and that many people simply relieve their frustrations in daily conversation or on blogs.

Based on the results of this survey, Kao is working on developing new ways of communicating with consumers via the Internet and on creating an overall environment that makes it easy for consumers to express their opinions.

Providing Appropriate Information






Providing information on the website

The types of inquiries that we receive from consumers range from requests for instructions on the proper use of products to information on safety and environmental effects. In response, Kao endeavors to consistently provide up-to-date information on its website.

In particular, we emphasize information to protect the safety and security of consumers, such as the need to conduct a skin allergy test (patch test) before using hair color, measures to protect skin against ultraviolet (UV) rays, precautions to observe when using our products for babies. We have also released “Ingredients, Containers, and Safety FAQs,” which provides answers to common questions about products themselves and their ingredients, and “Emergency Treatment,” which describes the correct emergency procedures to be followed if products are accidentally ingested or come into contact with eyes, for example. In addition, we have improved the content of FAQs concerning mainly new products, including *Attack Neo* and *Blaune Nemoto Color*, renewed “Information on Discontinued Products” and introduced alternative products in order to provide consumers with detailed information.



Ingredients, Containers, and Safety FAQs

- ▶ [Products Q&A](#) 
- ▶ [Ingredients, Containers, and Safety FAQs](#) 
- ▶ [Emergency Treatment](#) 
- ▶ [Solutions to Problems of Housing and Clothes](#) 
- ▶ [Information on Discontinued Products](#) 

TOPICS Opening a new "Cosmetics Q&A" website

In March 2009, Kao launched the "Cosmetics Q&A" site to provide answers to common inquiries from consumers and information concerning selection of skincare and makeup products, measures to protect skin against UV rays, and product ingredients. In addition, this site is designed to make information on cosmetics readily accessible to viewers. For example, our cosmetic brand sites including *Sofina* and *Est* are also shown on this site with links to individual products' features and uses.

▶ Cosmetics Q&A



Cosmetics Q&A

Promoting educational activities

Kao's Consumer Communication Center arranges opportunities for direct communication with consumers for the purpose of promoting education and sharing information by organizing various seminars and courses, in addition to actively participating in events organized by administrative agencies.

In addition, the Consumer Communication Center holds meetings to exchange opinions between Kao's various business sections and consumer organizations and uses these opinions in our future efforts and activities.

In fiscal 2009, the Consumer Communication Center implemented activities focusing on "eco together" in accordance with the Kao Environmental Statement announced in June. It also implemented cleaning seminars, programs emphasizing the importance of hand washing, and daily activity seminars for people with disabilities.

Holding meetings to exchange opinions with consumer organizations

Kao holds meetings to exchange opinions with consumer organizations concerning its environmental efforts. In 2009, we explained specific examples in the Kao Environmental Statement that was announced in June 2009 and gave details on events that led us to suspend production and sale of *Econa* products. We would like to gain a deeper mutual understanding with ecologically minded consumer organizations by promoting communication and using greater levels of feedback in our future activities and information disclosure.

Implementing daily seminars for people with disabilities

The Consumer Communication Center continuously implements educational programs from the viewpoint of people with disabilities. In 2009, the center conducted cleaning seminars for people with disabilities at the Association for Visually Impaired in Amagasaki City, Hyogo Prefecture in May and at Osaka City, Visually Impaired Welfare Association in July. Using a Braille textbook, we have



Cleaning seminar

participants identify bottles of detergent and fabric softener and confirm their instructions for use. We attempted to make the seminars more experience-based that allowed participants to learn while they were having fun by including demonstrations and practical training. As a result, we received favorable comments from many people.

Participating in environmental events and exhibitions

In October 2009, Kao participated in several events organized by consumer organizations and administrative agencies. Specifically, Kao participated in the "Tokyo Consumer Month, Kurashi Festa 2009" organized by the Liaison Conference of Tokyo Consumer Month Groups and the Tokyo Metropolitan Government the "Sumida Consumer Life Exhibition 2009" organized by the Sumida Ward and the event commemorating the 45th anniversary of the Consumption Science Federation organized by the Consumption Science Center and Consumption Science Federation. We introduced the "eco together" project from three perspectives; CO₂ emissions from products, Kao's new environmentally friendly detergent, and Kao's 3R (reduce, reuse, and recycle) initiatives.



Tokyo Consumer Month, Kurashi Festa 2009



Sumida Consumer Life Exhibition 2009

TOPICS

Kao supports menstruation education through distribution of free samples of sanitary napkins and operating the “What does becoming an adult mean?” website

Since its launch in 1978, under the “*Laurier*” brand of sanitary goods, Kao has conducted a variety of activities to support menstruation education for pre-pubescent girls, their parents, and elementary schools.

1. Distributing “*Laurier* menstruation education sets” to elementary schools free of charge

Nationwide, Kao provides study materials that provide a basic overview of menstruation and changes in the body along with sanitary napkins to pre-pubescent girls about to have their first menstrual cycle. In fiscal 2009, we provided approximately 732,000 sets to more than 8,700 elementary schools and other institutions that applied for the samples.

2. Running a website for children and their parents

Kao operates a website named “What does becoming an adult mean?” that helps children to learn the changes in their body and menstruation and urges parents to start preparing mentally and intellectually for such occasions. This site has one of the largest page view levels among Kao's sites and boasts the longest online time, which shows that the site has become a reliable source of information for children and their parents.

3. Holding a lecture on menstruation

At the Tochigi Plant, Kao presents an expert lecture on menstruation and offers plant tour inviting about 70 children and parent groups from Tochigi Prefecture every year. In fiscal 2010, this event will celebrate its 10th anniversary. Parents and nursing teachers, who have experienced these support activities have provided positive feedback. “It provided a good chance to talk about menstruation at home,” said one participant. Another said “it seems that my daughter's feelings of anxiety over menstruation have eased.”

▶ Kao *Laurier*'s CSR activities



Laurier menstruation education set

* The content of the set and the design is subject to change.



Lecture on menstruation (at Tochigi Plant)

TOPICS

Implementing activities to teach the importance of hand washing at kindergartens, elementary schools, and zoos

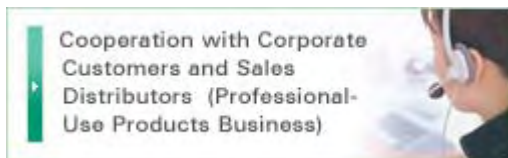
Kao has implemented activities to teach children the importance of washing their hands. As a part of this program, we produced a hand-washing song named "*Awaawa tearai no uta*," from which children can learn the appropriate way of washing hands while having fun. The song was produced based on the way of washing hands that is recommended by the Tokyo metropolitan government and the results of a questionnaire that was conducted with kindergarten teachers and in cooperation with authors of children's books and experts. Kao distributed DVDs and posters as study materials to a total of 6,376 kindergartens and 13,077 elementary schools in sets with hand soap products. In addition, we sent instructors to three elementary schools to deliver a lecture on washing hands and conducted panel displays and events to teach the importance of washing hands at 28 zoos (as of February 2010).



Hand-washing seminar by an instructor (Kao employee)

Responsibilities to Corporate Customers

Retailers of our consumer products and sales distributors of our chemical and professional-use products are an essential link in the chain between Kao and our consumers/customers, helping us put safe, useful products, along with valuable information, into the hands of people and companies who need them. Kao actively implements various activities aimed at promoting communication, information exchange, and cooperation with our retailers and sales distributors for the purpose of building close partnerships based on trust and facilitating the achievement of our shared prosperity.



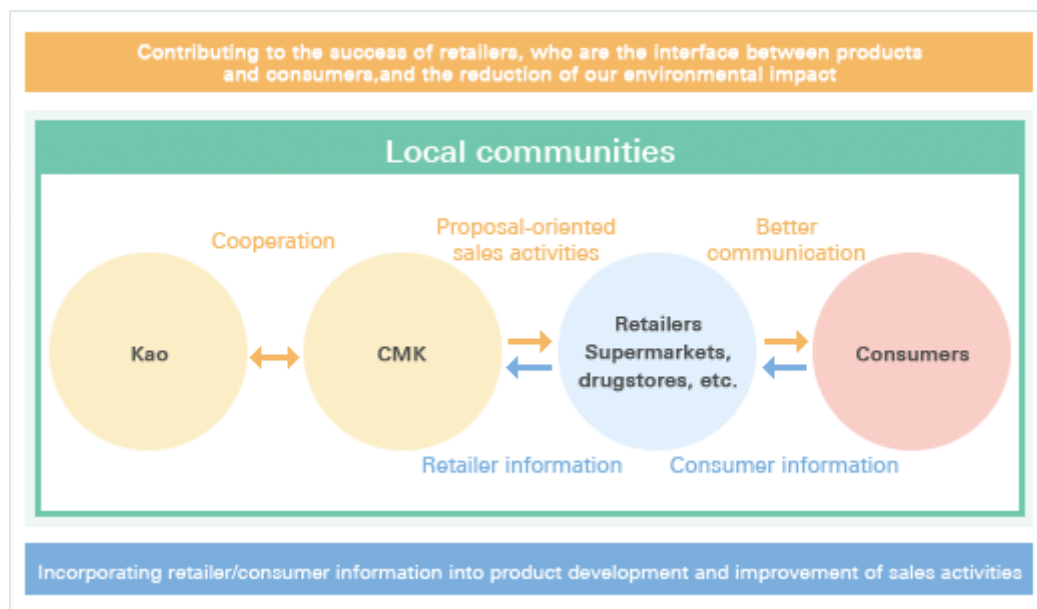
Cooperation with Retailers (Consumer Products Business)

Relationships with retailers are strengthened in cooperation with Kao Group companies

Kao delivers its products (consumer products) to consumers through its retailers, including supermarkets and drugstores.

Kao Customer Marketing Co., Ltd. (CMK), Kao's affiliate responsible for selling Kao consumer products, advances proposal-oriented sales activities in cooperation with another affiliate company that supports in-store activities, Kao Merchandising Service Company, Ltd., to strengthen collaboration with various retailers. In addition, CMK provides feedback from retailers for Kao's product development divisions as part of efforts to advance *Yoki-Monozukuri* throughout the Kao Group, while attempting to contribute to the sales performance of retailers and the reduction of its environmental impact through its sales activities.

Collaboration between CMK and Retailers



Hosting seminars and training sessions for retailers

As part of its efforts to reinforce collaboration with retailers, CMK holds seminars and training sessions for in-store sales personnel. These events give us the opportunity to explain the benefits, performance and uses of the Kao Group's products as well as to provide information on current market trends and give advice on how to effectively communicate our products to consumers.

In fiscal 2009, CMK held approximately 4,800 of these seminars and training sessions; 3,600 for prestige cosmetics and about 1,200 for household products. We also conduct "10-minute information sessions," as a forum to provide busy sales personnel with brief product information and quick tips for serving customers by visiting retailers individually.

TOPICS

Holding Collaboration Fair to strengthen collaboration with our retailers

For two days in July 2009 the Kao Group held the Collaboration Fair in an effort to enhance relationships with retailers. Having invited approximately 1,100 executives and buyers from our leading retailers from Japan and other Asian countries, we actively communicated with them by providing information about the Kao Group's business policies, the new CI, the Environmental Statement, existing sales activities, and its efforts in relation to quality and R&D. We also obtained opportunities to share their views and requests with us.



Proposal booth zone, "Introduction of Corporate Activities"

Cooperation with Corporate Customers and Sales Distributors (Chemical Business)

Promoting close communication

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

Market needs change fast in this business and it is therefore essential that our research and development keeps pace. It is also crucial that we stay in close communication with our corporate customers and sales distributors to ensure that the products we are providing are safe and of high quality.

In addition to making the most of opportunities to strengthen communication such as regular business negotiations and information exchange meetings, Kao also promotes information sharing with our sales distributors using an extranet^{*1}, to which they have access.

In recent years, Kao has been required to promptly provide information concerning laws and regulations related to products and product safety through supply chains. Therefore, we continually provide training internally and at our sales distributors so that they will voluntarily provide corporate customers with product information using the JAMP^{*2} MSDSplus^{*3}, etc.

^{*1} Extranet

A network in which intranets of different companies are interconnected.

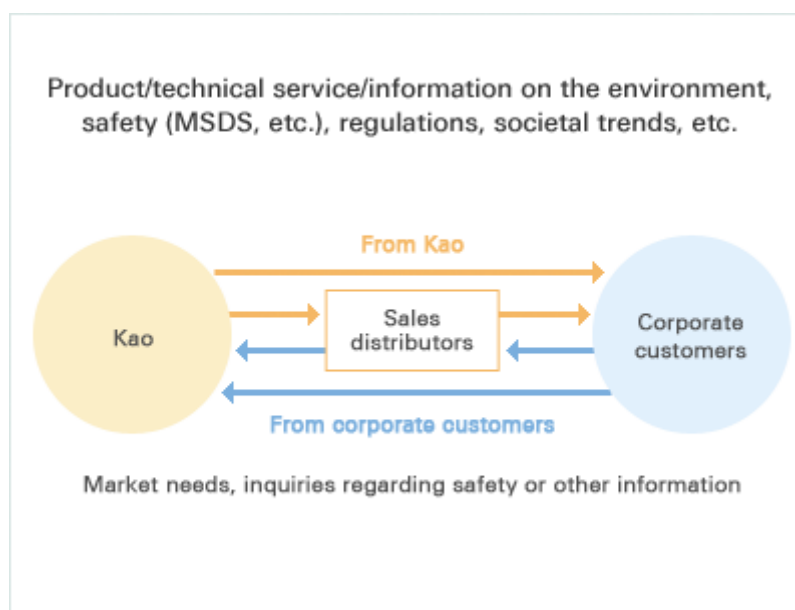
^{*2} JAMP (Joint Article Management Promotion-consortium)

JAMP was established in September 2006 as a body to promote cross-industrial activities to appropriately manage information on chemical substances contained in articles (synonymous with components and molded items) and smoothly disclose and provide such information throughout supply chains.

^{*3} MSDSplus

MSDSplus is a basic information transmission sheet for information on chemical substances contained in product the JAMP recommends.

Cooperation with Corporate Customers and Sales Distributors



Sharing information with sales distributors using the extranet

To promote information sharing with its sales distributors and boost operational efficiency, Kao established an EDI (electronic data interchange) system using the extranet with its sales distributors in 1999 and achieved systematization of ordering operations. In December 2008, Kao revamped the system based on the results of a questionnaire conducted with our sales distributors to promote information sharing in more prompt and timely manner.

Continuously implementing information exchange meetings with sales distributors

Kao continuously provides information and conducts information exchange meetings with the aim of achieving mutual development through communication with its sales distributors. In fiscal 2009, we conducted a training seminar for new recruits of sales distributors and a briefing session for sales distributors concerning the trend of laws and regulations in Japan and overseas. We also visited our sales distributors to exchange information.

The training seminar for new recruits of sales distributors is conducted every two years targeting employees with low seniority at sales distributors. Trainees are expected to acquire basic information concerning Kao's efforts related to comprehensive safety management and Kao's products so that they will continue to provide corporate customers with safe and high quality chemical products. In fiscal 2009, the seminar was conducted at Wakayama Plant for two days in September and was attended by more than 70 people, which was a record high.

In September, we also held a briefing session for sales distributors concerning the trend of laws and regulations in Japan and overseas at two sites in Tokyo and Osaka. We mainly focused on the amended Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof* (Law concerning Pollutant Release and Transfer Register/PRTR) that came into force in October 2009 and the amendment of the Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc. (CSCL: Chemical Substances Control Law) in April 2010 to make participants aware of the fact that the role of sales distributors concerning the use of products and distribution of information will increase.

In fiscal 2009, we visited a total of 15 business offices of 10 major sales distributors in Tokyo and Osaka and held information-exchange meetings. We requested thorough compliance with export-related laws and regulations and gave an explanation on the use of the sales distributors extranet, the latest international trend with regards to chemical substances management, and our efforts with regards to environmental business. Reflecting the large developments in controls for chemical substances around the world, we were able to reaffirm our mutual roles through information exchanges based on the latest information. In addition, we shared information based on the results of a questionnaire on CSR and environmental efforts that was distributed to sales distributors in advance and reaffirmed that all the sales distributors we visited continually made efforts towards CSR and environmental protection. In the future, we will continue to promote activities focusing on PDCA (Plan, Do, Check, and Act) with sales distributors.

* Amended Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof

This is a mechanism to grasp, compile and release data on how and to what degree and from what source toxic chemical substances are discharged into the environment or carried outside the plants within waste. The Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof was established in 1999, and the amended act, in which targeted materials were reviewed, came into force in October 2009.

TOPICS

Implementing a briefing session on the amended Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof and the amended Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc.

Recently, various kinds of laws and regulation on chemical substances management have been actively established and revised in many countries. Amid this backdrop, towards the achievement of the 2020 goal of the World Summit on Sustainable Development (WSSD) - "by the year 2020, chemicals will be used and produced in ways that lead to the minimization of significant adverse effects on human health and the environment" - each country is making active efforts in accordance with the Strategic Approach to International Chemicals Management (SAICM).

In line with this global trend, in Japan, the Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof was amended in November 2008, and the Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc. was amended in May 2009. These legal revisions mark a big change in the management of chemical substances, and sales distributors also need to make renewed efforts, including with regards to the provision of information and the collection of usage information for customers. Kao therefore implemented a briefing session on the amended Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof and the amended Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc., targeting its sales distributors at two sites in Tokyo and Osaka. At the session, following an explanation of international trends on the management of chemical substances, we gave an outline of the amendments, Kao's efforts to deal with them, and the role of sales distributors, while asking for their cooperation.



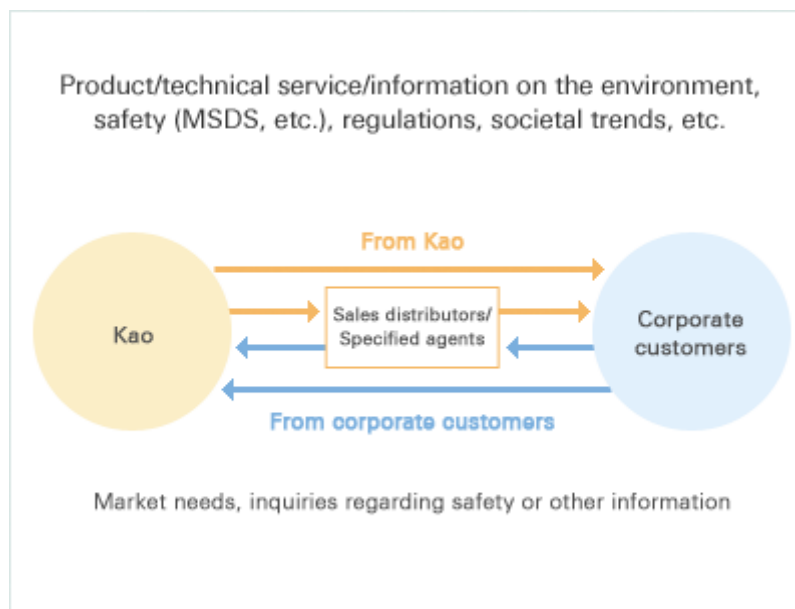
Participants from sales distributors listen intently at the briefing session (at Osaka Office)

Cooperation with Corporate Customers and Sales Distributors (Professional - Use Products Business)

Supporting customers' hygiene, safety, and environmental management

Kao Professional Services Company, Limited (KPS) provides cleaning agents and other professional-use products to companies and facilities that need high-level cleaning capabilities and hygiene management, including those in the food service and food processing industries, the dry cleaning industry and hospitals. In addition, KPS conducts thorough assessments of our customers' on-site needs and provides full consulting services concerning hygiene, safety, and environmental management tailored to suit the needs of individual customers. These services include improvement proposals, results verification, and manual preparation, as well as assistance for job training.

Cooperation with Corporate Customers and Sales Distributors



Establishing hotlines to provide inquiry services 24 hours a day, seven days a week

The food service industry, one of the major customers of our professional-use products, has recently undergone significant changes in the workplace, such as the increase in around-the-clock operation of stores and the employment of inexperienced part-time and non-regular staff. In response to these changes, ahead of the industry in fiscal 2007, KPS established two hotlines to respond to inquiries 24 hours a day, seven days a week. One of these hotlines is the Kao Customer Support Center, which advises on the proper use of detergents for dishwashers. The center deals with approximately 400 inquiries a month from restaurants and major food service chains concerning the appropriate handling of detergents and other issues. The second hotline, the Emergency Medical Consultation Hotline, provides advice on health and safety concerns arising in connection with the use of our detergents. As awareness of safety issues among people working in the field increases, users' demand for this service is expanding.

KPS is planning additional measures to further clarify the needs of each restaurant of our corporate customers and promote the expansion of services, including increasing the number of hotline operators as appropriate.

Responsibilities to Employees

Our corporate philosophy, the Kao Way, specifies in its Principles “We believe that the vitality engendered by diversity is a wellspring of business development, and therefore actively embrace differences of culture, nationality, belief, race and gender.”

Kao strives to eliminate discrimination based on culture, nationality, religion, creed, race, gender, age, physical ability and others. We also endeavor to preserve the dignity of each individual employee and create an environment where all employees can fulfill their own unique potential and work together as equal partners.



Human Capital Development and Training

Creation of an environment and corporate culture that foster the growth of individual employees and the company as a whole.

The efforts made by every employee add to the capabilities of his or her organization and the entire company. As organization grows, the motivation of each employee within that organization also increases. Kao's basic policy regarding the development of our human capital calls for the creation of such a corporate culture: one in which individual employees and the company grow and develop together.

Based on this policy, Kao has made clear the kind of "Ideal Organization" and "Ideal Employees" that we are seeking to help us achieve growth as an organization. In line with this, we provide various opportunities and support for employees to develop their skills and capabilities in accordance with their own level of motivation, individual characteristics, and organizational goals.

Guidelines for Human Capital Development

Since line management is essential at Kao Group, human capital development should be carried out transparently by all managers autonomously. It is important to cultivate talent who identify with the Kao Way and proactively practice it.

The managers are able to contribute to the achievement of business goals by maximizing the capabilities of employees through gathering the boundless wisdom of diverse individuals and managing the organization with advanced ideas which promptly respond to environmental changes.

To this end, it is important to develop an organizational culture and working environment in which organizational efforts and individual efforts to achieve goals are linked with efforts to achieve company goals in one single cycle of prosperity. We are committed to the integration of organizational growth and individual growth.

Toward the realization of such growth, has established and practice the following three philosophies as the basic principles of human capital development.

The Basic Principle of Human Capital Development

- Continuously improve overall efficiency based on creative and innovative activities aimed at the sustainable growth of the Kao Group through *Yoki-Monozukuri*.
(Pursuit of efficiency)
- Provide a work environment where each individual's dignity is respected, and which makes full use of employees' autonomy and diversity, since the enthusiasm of all employees to display their boundless wisdom is the wellspring of creation and innovation.
(Respect human dignity)
- Integrate organizational efforts and individual efforts through creative and innovative activities so as to achieve evolution for all. Make efforts to improve policies in order to offer all individuals freedom to display wisdom, and to enable combined individual efforts to lead the Kao Group to further prosperity.
(Efforts for integration)

Vision of Human Capital Development

Ideal Organization

We are committed to building organizations that are characterized by openness and frankness so as to encourage people to pursue innovation, by empowerment of greater transparency, and by organizational management based on the Kao Way. We also endeavor to actualize organizations in which the entire Kao Group operates harmoniously based on the concept of an “organically functional organization” which flexibly and quickly adapts to environmental change.

Ideal Human Capital

1. People with consistent challenging spirits (Challenge & Change)

Those who continuously strive to improve themselves.

2. People with high expertise (Professional Capabilities)

They have the advanced expertise necessary for their duties and roles. Those who have expertise that fit their duties and roles, and who are independent and can adapt to changes in circumstances.

3. People with a global perspective (Global Perspective)

Those who respect, learn, and carry out innovative ideas and technologies around the world with a global perspective.

4. People with the team spirit to achieve superior performance (Communication & Collaboration)

Those who strive to achieve high performance through communication and collaboration.

5. People with strong ethics (Integrity)

Those who have integrity and share sense of Kao's values and ethics.

Development and implementation of training programs based on the medium- and long-term business issues

In developing training programs, Kao assesses needs in advance. We grasp medium- and long-term business issues and the approaches and activities that are necessary to deal with them by interviewing top management and conducting employee surveys, and reflect the results in the training programs. We also make efforts to allow employees to learn on their own will, such as the establishment of training courses that respect individual initiative.

Launching the “Kao Creativity Camp” - Operating educational training globally in a unified manner

In April 2010, we launched the Kao Creativity Camp. The vision of the camp is to provide a base camp that will produce creative human resources who inherit Kao's DNA and can embody the Kao Way themselves. To promote the global unified operation of the camp, training programs are unified at home and abroad, and human resources who share values, goals, and ways of working are fostered. In fiscal 2010, we will implement common global programs, including the Asian Leadership Training program that began in fiscal 2008 and 2009 in the Asian region ahead of other regions, Management Training, Integrity Workshop, and Global New Employee Orientation sequentially.

Vision/Guidelines for Kao Creativity Camp

Vision

Creativity Camp

To become a base camp that will produce creative human resources who inherit Kao's DNA and can embody the Kao Way themselves.

Guidelines

1. Providing educational opportunities to all Group employees from a global perspective

- Provide all Group employees with necessary education programs shared globally.
- Provide human resources who have a willingness to study voluntarily and are qualified with high-quality education opportunities in a fair manner.

2. Planning training programs to meet business needs based on the medium- and long-term business strategies

- To deal with problems identified in the medium- and long-term business strategies, specify the educational needs to bridge the gap between necessary knowledge, skills and behavior and their current status and reflect them in the planning of training programs.

3. Integration of Off-JT and OJT

- Provide basic and professional education in accordance with the different career stages in a timely fashion.
- Provide methods to solve problems that can be implemented on the job.

Global Common Program



Global Professional Program

MK	Sales (CMK)	Production/ Engineering	R&D		Information System
Program for Brand/ Product Mgr.			Program for Senior Researchers	Senior Researchers Forum	Stage 3 IT (Synthetic)
MK Univ. (Master)	Global Key Account	SCM Training			Stage 2 Methodology (Practical) Application (Practical) Technology (Practical)
	TMKE (Trade)	High Pressure School			Stage 1 Methodology (Basic) Application (Basic)
	KAME (Key Account)	Global Techno School			Introductory IT
MK Univ. (Basic)	CSE (Customer Service)	Global Engineer School	Fundamental Science		
MK Basic III	FSE (Field Sales)	Production & Engineering Basic Course	Freshmen Forum		
MK Basic II					
MK Basic I	MDE (In-store MD)				

TOPICS

Implementation of Global Leader Development Program I & II

In 2010, Kao will begin implementing two training programs, "Global Leader Development Program I" and "Global Leader Development Program II", targeting selected leaders who will lead the global Kao. This is Kao's first global program common to all Group companies that will extract Kao's challenges from a broader perspective, inviting capable members from both Japan and overseas, to make proposals to the top management. By adopting English as the standard language of the program, we will increase the number of English-based programs to be implemented in the future.

Implementation of the 2nd Asian Leadership Training program

Because Kao is actively promoting the globalization of its business, it is urgent that the Group takes a global perspective with regard to its human capital development programs. In light of this, Kao launched the Asian Leadership Training program in fiscal 2007 with the aim of developing business leaders who will accelerate the growth of its business in Asian markets.

The training is designed to improve participants' understanding of targets and values linked to the Kao Way and to help them acquire specific leadership skills. The targeted participants are candidates for local management positions and those who are to lead the next generation. The first round of the training program was conducted in 2007 with the participation of 24 trainees from eight Asian nations, and the second round was conducted from September 2008 to December 2009 with the participation of 20 trainees from eight Asian nations. In the second round, we asked a graduate of the first round, a facilitator for the Kao Integrity Workshop held in Malaysia, to act as an instructor and provide peer-to-peer advice and specific examples of problem-solving. In the final round of the training program that was conducted in December 2009, all the participants made a presentation to management concerning how they accomplished the organization's goals through leadership based on the Kao Way. Then, they shared their thoughts on the Kao Way with the President and confirmed that they would continue to strive for the wholehearted satisfaction and enrichment of the lives of people globally. From fiscal 2010, we will renew the training program into a global leadership development training program including Japan, Europe and the United States.



Commemorative photo with Kao management at the graduation ceremony of the Asian Leadership Training program

Running a self-study training site over the company intranet

In line with the principle of encouraging independent learning referred to in our Policies on Development and Training of Human Capital, in fiscal 2004 Kao began running a self-study training site, "MA-navi" for employees on its intranet. As well as the text of "Ideal Human Capital" and our training policies, the site outlines our training system, the content of each training programs, and a variety of self development study programs.

In the future, we will shift the site to the global intranet and carry the information on self-study training programs at the Kao Group.

The Kao Way Workshop

To help promote practice of the Kao Way in daily operations, Kao has rolled out the Kao Way Workshop since November 2005. This workshop provides employees opportunities to discuss the links between their daily tasks and the Kao Way. In fiscal 2009, workshops were conducted in the following divisions and affiliates.

As we increase our commitment to sustainability and launch new medium-term business strategies, we will update the program from these perspectives and continue to promote the workshop targeting all sections, especially those that have yet to host one.

Implementation Status of the Kao Way Workshop (Fiscal Year 2009)

Domestic sections	Product Quality Management Production & Engineering Information Systems Logistics Accounting & Finance Biological Science Research Laboratories Safety Science Research Laboratories
Affiliates	Ehime Sanitary Products Co., Ltd. Kao Customer Marketing Co., Ltd. Kao Logistics Co., Ltd. Molton Brown Ltd. Kao Brands Company KPSS

TOPICS "The Kao Way Recognition"

The Kao Way Recognition, introduced in fiscal 2008, is a new program that aims to raise awareness among individual employees of the Values and Principles of the Kao Way by sharing and commending practical examples of how the Kao Way is put into practice at individual workplaces.

Based on a common framework, the autonomy of individual companies and divisions are respected with regard to how the program is introduced and operated. Our affiliates in Asia, for example, actively utilize this program by holding their own ceremonies to share best practices within the company. Molton Brown Ltd. in United Kingdom developed a hybrid program that integrated the existing reward program with the Kao Way Recognition. In Japan, the Legal & Compliance and Consumer Communication sections operate a similar hybrid program.

Among the practical examples cited in Recognition, the Kao Way Newsletter picks up several examples to share among Group companies globally to increase awareness and promote practice of the Kao Way.

Fostering production site local leaders at Global Techno School

As many baby-boomers reach the age of mandatory retirement, one of the major challenges for companies is how to pass on skills and know-how in a manufacturing setting. To address this issue, Kao has been implementing selective training under the name "Techno School" since fiscal 1989 with the aim of providing support to engineering operators who, by practicing *Yoki-Monozukuri*, will act as core members of the production division and see that the necessary technologies and skills are transferred.

This long-term training program lasts approximately seven months and targets operators at each plant in their 20s, 30s and 40s. Since the purpose of this training is to develop well-rounded individuals who will become key employees within the production division, as well as the practical, hands-on skills training and a pre-qualification program, we also provide lectures, sales practice and other programs designed to assist personal development and broaden the outlook of trainees.

Although the Techno School began by targeting employees in Japan and greater China and had only Japanese classes, we expanded the scope to employees based in ASEAN countries in fiscal 2008. Following the addition of English classes, we changed the name to Global Techno School. For 20 years since its opening, the Global Techno School has graduated 819 employees (including 62 foreign employees) of 25 classes and contributed to the reinforcement of capacity at production site. The Global Techno School will continue to aim to foster human resources who will practice *Yoki-Monozukuri* on the job.

Outline of Technical Training Program (Fiscal Year 2009)

Name of training program	Purpose	Number of participants
Global Techno School	Training of engineering operators	Domestic: 12 Overseas: 9
Basic Production Engineering Course	Training of junior field operators	53
Basic Management Training	Training of junior leaders	50
Transferred Employee Training	Training of leaders	16
Global Engineer School	Training of global engineers who will become key figures in Asian Harmonization Operations	Process: 9

TOPICS

Opening of Techno School at Kao Industrial (Thailand)

Kao Industrial (Thailand) Co., Ltd. opened the “Kao Industrial (Thailand) Techno School (TTS)” in fiscal 2007 targeting potential leaders with the aim of fostering human resources in the Production & Engineering section and becoming the No.1 plant in Asia. Just as the Global Techno School in Japan, the Thai school has adopted “mind and skill” as the key words, the TTS provides training programs on not only the knowledge and skills necessary for the Production & Engineering section but also self-improvement. The TTS also incorporates study tours of other companies to learn best practices.

In fiscal 2009, the TTS provided 25 trainees with training programs twice a week for seven months from May to December.

Kao Industrial (Thailand) will actively work on fostering employees, who are the most important resources in the future for the company's continued growth.



Training participants at the Thailand Techno School

Fair Evaluation and Compensation

Implementing fair and objective evaluations and compensation policies

Kao clearly states the roles and responsibilities of its employees, and focuses efforts on refining the mechanism for 1) fairly evaluating their capabilities and performance, 2) reflecting the achievements in compensation and benefits. With regard to employee individual performance management, we have introduced a system aimed at further raising the fairness and transparency of evaluation results and improving employee satisfaction. Specifically, employees under evaluation meet with their supervisors (appraiser) at the beginning of evaluation periods to discuss and determine the targets for the period. The attainment of targets is then quantified, and employees and supervisors meet again at the end of each period to evaluate the employees' achievements. In addition, to eliminate the potential for unfair evaluations due to subjective standards used by appraisers, employee evaluations are adjusted in various ways within each division.

Kao uses the Balanced Score Card approach as an evaluation tool for employees at the level of manager or upper. Since fiscal 2009 we have also implemented this approach for local executives of overseas affiliates to further enhance the transparency of evaluations. By utilizing the results of the employee opinion survey "Find," Kao will continue to promote fair evaluations of individual employees' capabilities and achievements and will reflect the achievements equitably in employee compensation. Through this performance review and compensation policies, we intend to bring out the best in our employees and ensure their enthusiasm and motivation for work remains at a high level.

Implementing training for evaluators in Japan and overseas

Kao provides managerial employees with a variety of training programs in Japan and overseas.

- Training programs for entry-level supervisors/managers who manage staff for the first time
- Training programs for employees promoted to supervisors, managers, and/or equivalents

Implementing the Employee Invention Compensation System

Kao introduced the Employee Invention Compensation System in 2000 with the aim of encouraging employees' research activities and revised it in light of the amendment of the Japanese Patent Act of April 2005. The Employee Invention Compensation System incorporates a system to pay compensation for the filing of a patent application and an incentive scheme for patents that make an outstanding contribution to the business of the company. The incentive scheme is designed to provide financial incentives to employees who develop an invention that makes a significant contribution to our business, both to reward those employees and encourage others. The scheme consists of a "practicing patent incentive" for patents used within the company as well as an incentive based on licensing fees received in accordance with revenues earned. Rewards are determined once a year in accordance with the Compensation System for Employee Inventions through a fair and transparent process in which the contribution to Kao's business and the evaluation of the value of relevant patents are considered. The determined rewards are disclosed to employees via the company intranet.

Since the establishment of the Employee Invention System, the development of inventions that meet the standard of the incentive scheme has been continuous. We will continue to provide an environment that offers encouragement and material support to the creation of valuable research results and patents that contribute to corporate profitability.

Promotion of Diversity and Respect for Individuals

Continuous promotion of Equal Partnership

Since 2000, the Kao Group companies in Japan has been engaged in Equal Partnership (EPS) promotion activities under the themes of respect for diversity, promotion of a work-life balance, and others, with the aim of achieving an open, cheerful and diverse workplace where discrimination is not tolerated and where employees are motivated and enjoy their work.

In fiscal 2009, we restructured the internal portal site and improved the platform for transmitting information to employees. In addition, we continued to distribute the "Equal Partnership News Plus," an in-house information magazine to promote employees' understanding of EPS promotion activities, to employees of all Kao Group companies in Japan in August and December. The August issue dealt with human rights, and the December issue dealt with work-life balance and prevention of sexual harassment.

As part of the training programs targeting new mid-career hires and entry level supervisors/ managers, we held lectures concerning the "Need to promote diversity," "Prevention of harassment," "Promotion of a work-life balance," and others in an effort to realize a management style that utilizes diversity. The lectures were held 10 times, attended by a total of 255 employees. In addition, we held the EPS Promotion Network conference to increase the level of EPS promotion activities, which is composed of HR staff at regional sites and Kao Group companies and staff from the headquarters of HR in July and December. At the conference held in July, members confirmed problems due to the current employment pattern and exchanged opinions concerning the promotion of employment of people with disabilities. In addition, a lecture on cross-cultural communication was provided by a guest speaker. At the December meeting, participants provided information and exchanged opinions concerning the review of working styles. They also exchanged opinions towards the deeper understanding of the effect of the amendment of the Act on the Welfare of Workers Who Take Care of Children or Other Family Members Including Child Care and Family Care Leave and further promotion of EPS within the office.



Screen from the internal portal site posting information relating EPS, etc.

Pursuing gender equality

Kao endeavors to actively increase opportunities for women based on the principle that gender should pose no barrier to employees wishing to contribute their best. In fiscal 2009, the percentage of female managers at Kao Corporation was 5.5% (and the percentage of female employees was 18.6%), up 0.8 percentage point from the previous year. The percentage of female managers in the entire Kao Group in Japan was 6.7% (and the percentage of female employees in the entire domestic Kao Group was 58.4%), and the percentage of female managers in the entire Kao Group including overseas companies was 21.6% (and the percentage of female employees in the entire Kao Group was 56.8%).

We are committed to continue to foster a corporate culture where all employees of outstanding ability, regardless of gender, can fulfill their potential.

Employee Data by Region (regular employees)

	Fiscal Year 2009	Percentage
Japan	23,800 employees	68.2%
Asia (excluding Japan)	7,561 employees	21.7%
The Americas	1,201 employees	3.4%
Europe	2,351 employees	6.7%
Total	34,913 employees	

Employee Data (Japan, Consolidated)

		Fiscal Year 2008	Fiscal Year 2009
Regular employees* ¹	Female	12,911	13,885
	Male	9,916	9,887
Contract employees* ¹	Female	3,340	2,483
	Male	164	183
Percentage of female managers (regular employees only)* ¹		6.5%	6.7%
Employees who took child-care leave* ¹	Female	421	469
	Male	89	93
Employment rate of people with disabilities (As of June 1, 2009)	Kao Group in Japan as a whole* ²	1.87%	1.88%
	Kao Corporation	1.90%	1.84%

*¹ Calculation based on inclusion of Kao Corporation, Kao Customer Marketing Co., Ltd., Kao-Quaker Co., Ltd., Kao Professional Services Co., Ltd., Ehime Sanitary Products Co., Ltd., Kanebo Cosmetics Inc., Kanebo Cosmetics Sales Inc., Joset, Ltd., Prive, Inc., Kanebo Cosmillion, Ltd., Lissage, Ltd., and e'quip, Ltd.

*² Calculation based on inclusion of nine domestic affiliates that are required to employ people with disabilities (Kao Corporation, Kao Customer Marketing Co., Ltd., Kao Merchandising Services Co., Ltd., Kao Professional Services Co., Ltd., Ehime Sanitary Products Co., Ltd., Kao Logistics Co., Ltd., Kao Shoji Co., Ltd., Kanebo Cosmetics Inc., and Kanebo Cosmetics Sales Inc.) and Kao Peony Co., Ltd.

Supporting work-life balance

To help employees achieve a good balance between work and the individual's life, Kao has enriched various systems to support childcare and nursing care. At the same time, we have endeavored since the 1980s to build awareness among employees and create a corporate culture that encourages the uptake of these systems. Since fiscal 2008, individual companies and divisions have endeavored to make their own plans for achieving a work-life balance by reviewing their own work culture. Individual offices and plants implement a variety of measures, including "no overtime" campaigns and introduced and supported a balanced variety of working styles. In addition, efforts to improve the number of employees taking paid holidays were made.

In fiscal 2009, we defined October and November as "Special months for supporting work-life balance" and intensively undertook various efforts for work-life balance, such as the provision of information concerning male workers' participation in child care and nursing care, the introduction of e-learning programs for management concerning work-life balance, and the implementation of Mammy's Lunch. Other initiatives include a presentation on work-life balance by an invited guest speaker at Osaka Office, Kao Corporation, and Kao Customer Marketing Kinki Region in October, at Tochigi Plant in November, and at Sumida Office in March. Each presentation drew a large number of employees and gave them an opportunity to consider the issues up close. Additionally, the "Equal Partnership News Plus" that was issued in December featured related trend in society and individual Group companies' efforts.

In the future, while continuing the ongoing efforts, we will focus on support for nursing care as one of important issues, and study and improve actual situation related to this subject at Kao Corporation before considering them and implementing measures for even greater improvement.

Implementation of the action plan based on the Law for Measures to Support the Development of the Next Generation

Aiming to provide its employees with better working conditions, Kao has endeavored to improve child care and nursing care systems and develop a corporate culture in which employees can easily access these systems. Above all, based on the understanding that child care support relates to all employees' way of working, all Group companies in Japan with more than 301 employees have formulated goals and action plans for achieving good work-life balance and are implementing them based on the Japanese Law for Measures to Support the Development of the Next Generation. As a result, Kao Corporation in 2007 and 2009 and Kanebo Cosmetics Inc. in 2007 achieved their action plans and received official recognition for meeting the requirements under the Law.

At present, Kao is preparing and practicing the third-stage action plan. In particular, to urge male employees to take child-care leave, Kao is endeavoring to develop a corporate culture in which they can easily take it and aims to keep all employees informed of various systems to help balance work and child-raising, while reviewing ways of working by reducing work hours. In the future, we will continue to make efforts with the aim of realizing a better working environment where employees can easily balance work and responsibilities at home.

Encouraging male workers to participate in child care

Kao implements a variety of educational activities to encourage male employees to participate in child rearing and reviews and amends related systems as necessary. In fiscal 2006, we introduced a system whereby the first five days of child-care leave could be taken as paid holidays. One male employee who took advantage of this opportunity reported that he became much more aware of his paternal responsibilities and his participation was appreciated by his family. Many others said that they would encourage their colleagues to use the system, too.

In response to a request from administrative agencies, we have been cooperating with an investigation of the system's implementation status and surveys by interview. As the result of these efforts, the percentage of fathers employed by the Kao Group as a whole who took child-care leave in fiscal 2009 was 36.5%, with a total of 281 employees used the system since its introduction in September 2006 until the end of fiscal 2009. In fiscal 2010, we will continue to promote the use of the system by raising awareness of the system among male employees and improving the understanding of the system among managers.

TOPICS

Implementing Mammy's Lunch for working mothers

In November 2009, we held a lunch meeting for female employees who have small children at Kayabacho Head Office, Sumida Office, and Wakayama Plant with the aim to have them share their concerns about child-raising and renew their motivation to balance work and child-rearing. Since they are usually very busy balancing work and child-care and have limited opportunities to share their concerns and communicate with other female workers transcending departmental boundaries, the meeting, which lasted only an hour though, became a very productive one where many personal experiences and opinions were shared.



Mammy's Lunch

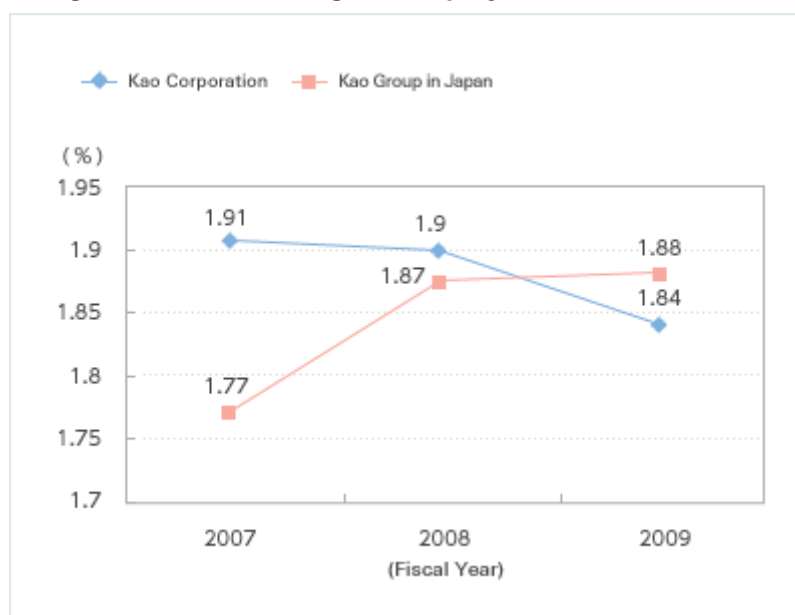
Promoting the employment of people with disabilities

Kao promotes the employment of people with disabilities under a policy of "supporting the independence of all members of society with the aim of achieving a society in which people with and without disabilities can work and live together".

As of the end of June, 2009, the percentage of people with disabilities employed by the entire Kao Group in Japan was 1.88%, with the figure for Kao Corporation at 1.84%. At Kao Corporation, the percentage decreased because the number of retired workers was larger than usual. The company, however, is focusing its efforts on the development of job categories and recruiting activities for that purpose. Kao Peony Co., Ltd., a subsidiary of Kao that began a full-scale operation in April 2006, has a total workforce of 23 employees, 18 of whom have disabilities. At Peony, they mainly conduct setting and packaging work of Personal Care products and cosmetics on the conveyor-belt assembly line. Individual differences in work ability are supplemented with team work, and efforts are made to maximize individual employees' abilities. As a result, the company has been operating successfully.

In fiscal 2009, we implemented an inspection tour by Kao Group employees in charge of personnel affairs, and a total of 59 employees participated from seven companies. They learned about accounts of Kao Group's efforts to promote the employment of people with disabilities and Kao Peony's operation and activities. The inspection tour provided them with an opportunity to deepen their understanding of the hiring policy of people with disabilities and our current situation, reaffirm the importance of hiring people with disabilities, and consider measures to further promote their employment. In the future, we will continue our efforts to create a better working environment for a diverse range of employees and provide jobs for people with disabilities.

Changes in the Percentage of Employees with Disabilities



* Calculation based on inclusion of nine domestic affiliates that are required to employ people with disabilities (Kao Corporation, Kao Customer Marketing Co., Ltd., Kao Merchandising Services Co., Ltd., Kao Professional Services Co., Ltd., Ehime Sanitary Products Co., Ltd., Kao Logistics Co., Ltd., Kao Shoji Co., Ltd., Kanebo Cosmetics Inc., and Kanebo Cosmetics Sales Inc.) and Kao Peony Co., Ltd.

* As of June 1, 2009.

Operating the Senior Partner policies for re-employing retired employees

As the working population in Japan decreases due to the declining birthrate, it has become an issue of great importance for companies to secure a stable supply of workers and to see that the transfer of skills and expertise from experienced workers to those with less experience takes place. In response to this issue, in April 2006, Kao Corporation introduced the Senior Partner policies to re-employ retired manager-level employees with significant technical or business skills and experience as contract workers. In April 2008, the scope of retired employees covered by the policies was expanded to include those in non-managerial position.

As a result, the number of re-employed employees in fiscal 2009 was 31, or 31.6% of all employees who reached the retirement age that year. The total number of retired employees re-employed since the introduction of the system in April 2006 was 65 as of the end of March 2010. The percentage of retired employees re-employed is expected to rise in fiscal 2010. We will endeavor to operate the policies in such a way as to create an environment that will allow motivated and talented senior employees to work with vigor and enthusiasm and contribute to our business.

Changes in the number of retiring employees re-employed (Kao Corporation)

Fiscal year	Number of employees who reach the retirement age	Number of retiring employees re-employed	Percentage
2006	58	3	5.2%
2007	68	10	14.7%
2008	77	21	27.3%
2009	98	31	31.6%

Promoting creation of a workplace free from discrimination and harassment

As people become more aware of the issues about harassment in the workplace, Kao provides training programs dealing with human rights and harassment for employees. We revised and published the company's guidelines, "Guidelines for Preventing Sexual Harassment" and "Guidelines for Preventing Workplace Bullying" as needed. In fiscal 2008, we improved the content of the segment on prevention of workplace bullying in the seminar for newly-appointed managers.

In fiscal 2009, we designated December as the "Month for Preventing Workplace Bullying" and introduced relevant information and internal measures to all employees by publishing the newsletter. In addition, we made intensive efforts, including putting up a poster for the prevention of sexual harassment at Kao's all offices and plants and Kao Group companies in Japan, to raise all employees' awareness about the need to prevent sexual harassment. The issue of sexual harassment was also dealt with in a short video footage that is regularly presented by the section in charge of compliance to promote deeper understanding of the issue. As the results of these efforts, all employees share a common understanding that harassment is not accepted behavior. However, sexual harassment, in particular may occur due to a difference in awareness and perception between women and men. Therefore, we placed a self-checklist to measure the degree of harassment in behavior and awareness in the "Equal Partnership News Plus."

In addition, internal and external hotlines established by the company may receive allegations relating to harassment and workplace bullying.

Conducting an employee opinion survey known as "Find"

Improving work environments based on the results of the surveys

Kao conducts an employee opinion survey known as "Find" every two years, targeting all employees of the domestic Kao Group companies. The aim of the survey is to further enhance Kao's organizational culture and identify issues to be solved. Based on the results, individual divisions draw up their own action plans to ensure that the findings of the survey lead to actual improvement of business processes and productivity. Then, they promote the improvement of work environments and the creation of a supportive corporate culture by implementing these plans. Since fiscal 2007, we have widened the scope of the "Find" survey to include managers of overseas Kao Group companies in an effort to improve various systems and environments from a global perspective.

The survey conducted in fiscal 2009 identified the "review and improvement of business processes for *Yoki-Monozukuri*" and the "creation of an environment for individual development through practice of daily work (OJT) and training (OFF-JT)" as issues to be addressed in the future.

In fiscal 2010, all companies will be made aware of these issues and asked to implement action plans to solve them. The next survey is scheduled to be conducted in fiscal 2011.

Questionnaire Items for "Find"



Promoting Dialogue with Employees

Promoting understanding between senior management and employees

To promote understanding between senior management and employees, Kao holds Management-Employee Meetings every year and also provided a variety of other opportunities for dialogue between employees and management both at home and overseas. The Management-Employee Meeting is an important opportunity to exchange opinions between senior management and employees. Specifically, the President & CEO explains the company's current situation, future strategies, and priority issues regarding personnel development and the like to representatives of each of Kao's sites. Two of these meetings were held in fiscal 2009, in April and October, at which participants discussed the underlying concepts of a range of personnel systems, the work-life balance, and work management. In addition, each individual Kao site in Japan holds meetings between workers and management and has an Employee Welfare Committee to facilitate understanding between the two groups.



Management-Employee Meeting

In other countries, we established the Kao European Works Council in Europe in 1996. Under this system, employee representatives from Kao's European affiliates attend an annual meeting at which senior managers of our European businesses explain the current situation and future management plans and answer any questions that may arise. The fiscal 2009 meeting was held in Germany in November.

In China, mechanisms for worker-management dialogue include a labor union headed by elected officials and a Staff and Workers' Representative Congress, which is operated by representatives elected from divisional groups.

Consideration for Employees' Health and Lifestyle

Promoting a health program called "KAO Health 2010"

Kao has been promoting a health program called "KAO Health 2010" since fiscal 2005 to "promote health consciousness among employees and help more employees maintain their physical and mental health." In 2008, we formulated a "Kao Group Health Declaration" and stated that we would actively support our employees' health from the following five aspects in cooperation with the Kao Health Insurance Union.

Five Support Measures of the "Kao Group Health Declaration"

1. Measures to address lifestyle-related diseases
 2. Measures to address mental-health issues
 3. Measures to support employees wanting to quit smoking
 4. Measures to support employees affected by cancer
 5. Measures to support women's health
-
1. The measures to address lifestyle-related diseases include the provision of check-ups and advice with a particular focus on metabolic syndrome that insurers (corporate health insurance unions) have been required to provide to insured workers and their dependents aged 40 or over by the Ministry of Health, Labour and Welfare since fiscal 2008. Based on the results of health examinations and interviews, we provide employees with health-care advice focused on preventing lifestyle-related diseases. We are conducting support activities so that employees will make a voluntary attempt to improve their lifestyles.
 2. As measures to address mental health issue, we introduced a mental health check system in fiscal 2008 and have established a system to deal with employees with mental health problems early on. In addition, we actively provide managers with training to deal with mental health issues.
 3. Since fiscal 2009, we have implemented the "Kao No Smoking Campaign" in line with the World No Tobacco Day on May 31 to raise awareness of the importance of no smoking to provide support to employees who want to quit smoking.
 4. With the exception of some kinds of cancers, early detection and early treatment is effective. Therefore, we added cancer detection categories to the annual physical check-up designated by the Industrial Safety and Health Act for employees aged 30 and 35 or over.
 5. As efforts to deal with female-specific health problems, we spread knowledge of gender-specific medicine to increase the rate of females receiving gynecological exams. From fiscal 2008, in the general regular physical check-up (statutory check-up for employees aged 35 or less except 30), female workers can choose to receive screening for cancer of the cervix and a mammography every two years. In October 2009, we held a health seminar entitled "Women's lifestyle and health" inviting Dr. Ruriko Tsushima, ob-gyn doctor, at Kayabacho Office to speak. We will continue to plan seminars like this in the future.



"Women's lifestyle and health" seminar



Materials to spread the knowledge of gender-specific medicine

Participation rate for the Fiscal Year 2009 annual health check-up (Kao Corporation and its domestic affiliates*1)

- Number of employees who had a health check-up: 99.9%
- Number of employees who received post-health check follow-up advice*2: 95.7%

*1 Affiliates excluding Kao Logistics Co., Ltd., Kanebo Cosmetics Inc. and its six subsidiaries.

*2 The percentage of employees who received healthcare advice out of all employees who had a check-up.

Activities to help employees improve their lifestyle habits in fiscal 2009 (Kao Health Insurance Union's support project)

Health mileage

As a measure to help achieve Kao's health goal, "to promote health consciousness among employees and help more employees maintain their physical and mental health," the Kao Health Insurance Union operates a mileage program using "being in good health," "having promoted health," "having a strong awareness of health and improving health" as index categories. Employees can convert mileage points obtained in the following programs into health goods.

Participants (registrants): 6,288 (Participation rate: 39.4%)

1. Walking challenge

Participants need to enter the number of steps they take on a daily basis.

Mileage points are presented in accordance with the number of steps.

Participants: 2,131 (Total number of employees targeted: 15,859,

Participation rate: 13.4%)

The average daily number of steps per participant: 9,772 steps

The number of participants who take an average of 10,000 or more steps per day: 910 (42.6% of all participants)

2. Lifestyle habits improvement challenge mile

Participants need to specify lifestyle habits that they want to improve and set target levels. Mileage points are presented in accordance with the self-evaluation at the end of the month.

3. Check-up mileage

Mileage points are presented in accordance with check-up data and the results of health interviews.

4. Health event mileage

Mileage points are presented when participants have a dental check-up or participate in individual offices' and plants' own health events.

Other health support programs

Kao provides up to 30,000 yen toward the costs of fees for programs run by hospitals to employees who succeed in quitting smoking. In fiscal 2009, Kao began providing up to 15,000 yen towards the costs for buying over-the-counter drugs to help quit smoking, including nicotine patches and nicotine gum, to employees who succeeded quitting smoking with them. In addition, Kao participated in the *Rakuraku Kinen Kontesuto* (Quitting smoking contest) organized by the Japan Cancer Society and also supported a campaign to quit smoking completely in six weeks. In fiscal 2009, 25 employees succeeded in quitting smoking. Additionally, individual offices, plants and regions throughout the country implement their own efforts, including a campaign to improve dietary habits, a seminar to prevent lifestyle-related diseases, a health seminar for women, and measurement of physical fitness.

Issuing "Kao Group Health White Paper (preparatory issue)"

Following the formulation of the "Kao Group Health Declaration" in August 2008, we issued the "Kao Group Health White Paper (preparatory issue)" in February 2010. The White Paper collects and analyzes various kinds of data on Kao Group employees' health in fiscal 2008. By visualizing employees' health conditions, the white paper aims to rotate Kao's health promotion project's PDCA (Plan, Do, Check, and Action) cycle of "Grasping the current situation," "setting goals," "planning measures to achieve goals," and "practicing measures and evaluation." Under ordinary circumstances, such health data should be compared with that of other parties (health insurance unions, local governments, companies, etc.), and the relative position should be presented. However, since there are few precedents that can be referred to, we will make time-series analyses within the Kao Group for the time being. For this reason, this white paper was issued as a preparatory issue as it is treated as the base year for future issues.

By continuously issuing the White Paper every year, we would like to use it as evidence of improvement in the health level of Kao Group employees.

Promoting appropriate working hours using the Work Management System

In the wake of legislative amendments and from the perspective of managing the risk of burn-out, Kao introduced a system to manage the number of hours that employees spend at work and their declared overtime hours in April 2005. We use this Work Management System to endeavor to meet our obligations to comply with our "Article 36 Agreement" (agreement on overtime work) to prevent excessive work and the potential resulting health problems. Under this system, the number of hours worked by individual employees is confirmed once a month by the employee and his or her manager. If the amount of time specified in the Article 36 Agreement is exceeded, a Special Extension Notification must be submitted. These notifications may be submitted for a period of up to half a year, and the special extension system is operated within the period of the statutory limit. In addition, if overtime exceeds a fixed period of time (100 hours per month or 80 hours per month on average over a two- to six-month period), the employee is required to undergo an interview regarding his or her health each time the limit is exceeded. As the result of these efforts, the rate at which paid holidays were used increased from 57% in fiscal 2008 to 61% in fiscal 2009 at Kao Corporation.

Supporting proactive future plans

As Japanese life expectancy has increased, and we are facing an aging society, how we can make post-retirement life a stable and fulfilling one has become a big issue. Kao provides various programs to help employees who have supported the company for a long time live an active life even after retirement.

Implementation of Life Plan Seminars

From fiscal 1992, Kao has held a Life Plan Seminar for all employees turning 55-58 to help them make plans for their lives after retirement (life on a pension). The seminar includes an explanation of Kao's retirement (corporate pension) system and the social insurance system as well as presentations by invited speakers, who talk about life on a pension and provide guidance and advice on life after retirement along with other information. In fiscal 2007, a course for married couples was also introduced, and we are making continuous efforts to improve the content of the seminar in complying with the perspective of the targeted generation. For the period between the first seminar in 1992 and the end of March 2010, the total number of participants amounted to 1,615 (including 83 couples).

Holding Life-Career Design Seminars

From fiscal 2007, Kao has implemented an overnight Life-Career Design Seminar targeting employees who have reached the age of 45. The seminar provides participants with a valuable opportunity at the halfway point in their lives, to look back on their career and consider their philosophy on work and lifestyle. The seminar is designed to help participants independently consider their future plans. In fiscal 2009, out of 369 eligible employees, 121 participated in the seminar. We will continue to improve the content of the seminar to increase the number of participants.

Occupational Safety, Process Safety and Disaster Prevention

Preventing occupational accidents

When occupational accidents do occur, we analyze the causes and take necessary measures to prevent similar accidents in the future and thereby protect our employees. In addition, Kao provides extensive safety education to both regular and non-regular employees at the general training sessions for new hires and training sessions organized by individual divisions in order to boost the safety awareness of each employee. Kao has also established a mechanism to keep track of occupational accidents that occur at Kao Group companies overseas through the emergency reporting network. At our plants in Southeast Asia, we use the Environmental & Safety Data Management System ("Kanchian" System), which is adapted for local conditions, and organize statistical data on occupational accidents.

In 2009, we continued to conduct risk assessments for machineries and operations at individual divisions and promoted 3Ss, *seiri* ("tidiness"), *seiton* ("order"), and *seiso* ("cleaning"). At the Production & Engineering Division, we reviewed and tested a risk assessment for the treatment of chemical substances and promoted a safety assessment for chemical equipment. At the Logistics and the Sales Division, we implemented measures to reduce traffic accidents.

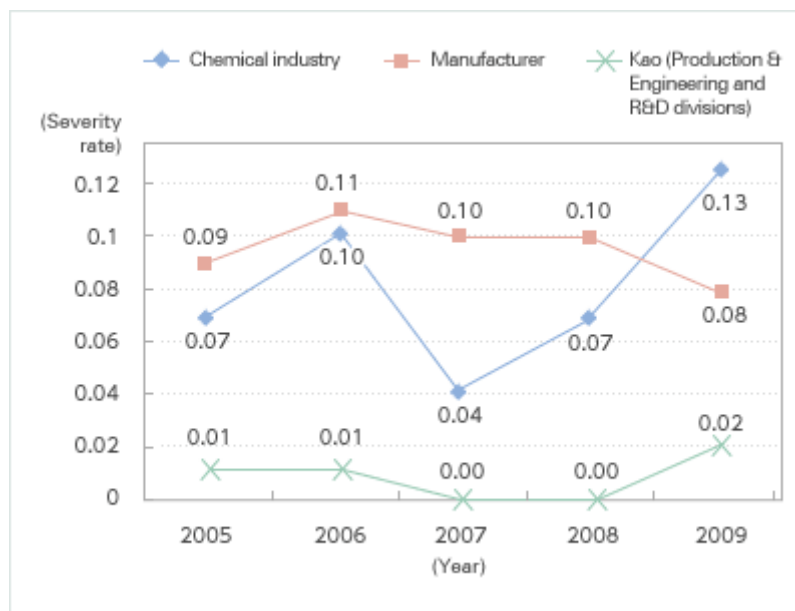
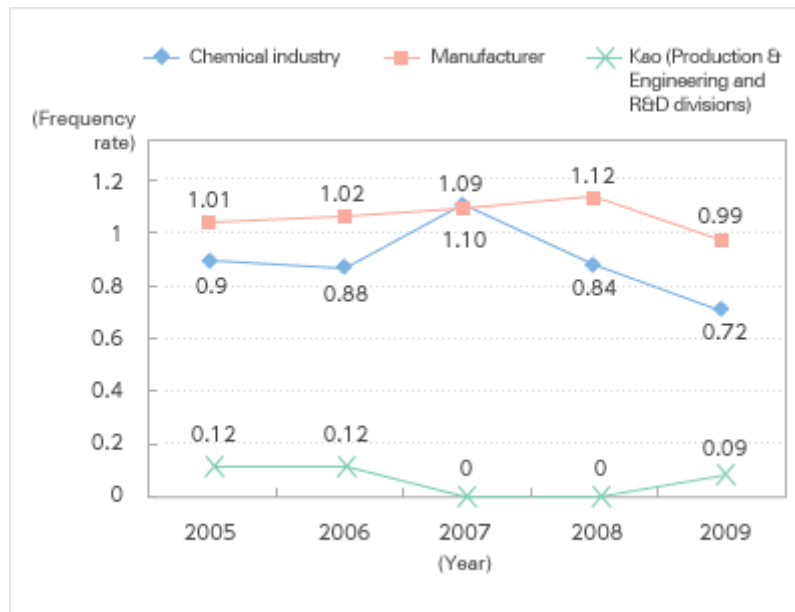
Occupational accidents in 2009

The number of employees across the entire Kao Group in Japan (including temporary staff) who suffered occupational accidents in 2009 decreased from 161 in 2008 to 156. The number of employees suffering injuries resulting in lost work days decreased in 2009 from 26 in 2008 to 19.

By category, the number of traffic accidents, "stuck" accidents, bruises, cuts and grazes in the sales business decreased, while the percentage of "sprains & bruises," "accidental contacts of carriages," and "backache, etc." in the distribution business increased. The number of employees who suffered from occupational accidents in the Production & Engineering and the R&D divisions of the Kao Group (including Kanebo Cosmetics' production and research division) decreased from 40 in 2008 to 35 in 2009. In the R&D Division, accidents in which victims suffered from glass cuts or were caught or stuck in machinery decreased, and in the Production & Engineering Division, accidents in which victims were exposed to hazardous materials and high & low temperature or caught or stuck in machinery increased. The number of employees who suffered injuries resulting in lost work days was one in 2009, although it was zero in 2007 and 2008.

We will continue to implement measures to reduce traffic accidents and to conduct enhanced risk assessments and other activities to reduce remaining risks.

Changes in the Frequency Rate*¹ and Severity Rate*² in the Production & Engineering and the R&D Divisions



* We reviewed the calculation method and have also included the number of temporary employees who suffered from occupational accidents since 2005.

* Since 2008, we have included the production and research section of Kanebo Cosmetics in the calculation.

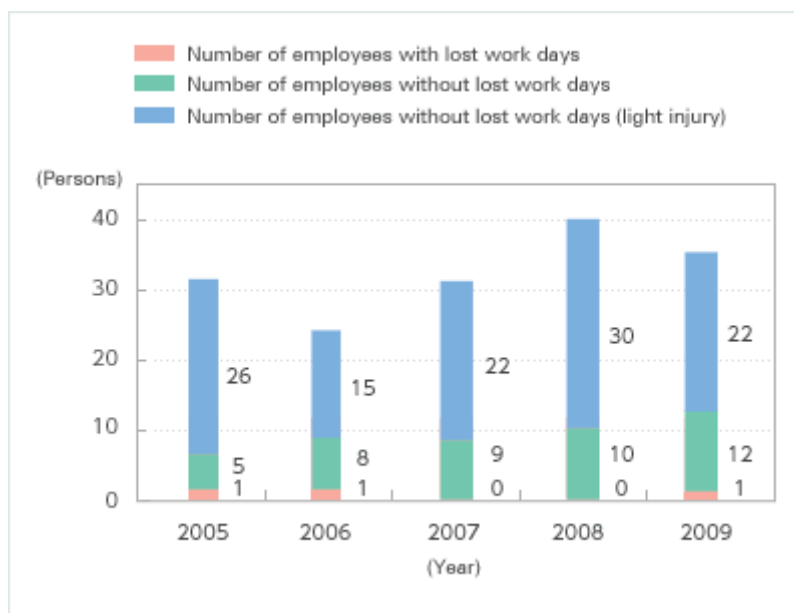
*¹ Frequency rate

Numbers of deaths and injuries due to occupational accidents per million hours worked ("Accidents" is defined as an incident resulting in the loss of more than one working day and the loss of a body part or physical function)

*² Severity rate

Number of working days lost per thousand man-hours actually worked.

Changes in the Number of Employees Injured by Occupational Accidents in the Production & Engineering and the R&D Divisions



- * We reviewed the calculation method and have also included the number of temporary employees who suffered from occupational accidents since 2005.
- * Since 2008, we have included the production and research section of Kanebo Cosmetics in the calculation.

Occurrence of small fires in 2009

While the Kao Group had no serious accidents in 2009, there were four small fires at domestic facilities. These fires caused no injuries.

April/Wakayama Plant

Liquid leaked from plumbing and infiltrated into the valve heat-insulation part of the lower steam piping, and the inside of heat-retention material caught fire due to the accumulation of heat.

August/Tochigi Plant

In the machine room of the sanitary plant, sparks generated by contact friction of rotating bodies ignited pulp.

November/Wakayama Plant

On the control board in the electric room of gas turbine power generation, an internal burnout occurred due to the failure of the transformer itself.

December/Tochigi Plant

Due to a malfunction of the conveyor roller in front of the garbage incinerator, garbage caught fire due to heat caused by friction.

In light of the above-mentioned four fires, we checked similar facilities and equipment and confirmed that they had no abnormalities. We will continue to carry out thorough control of regular checks, maintenance, and patrol of facilities and equipment.

Drills for large-scale disasters

The domestic Kao Group implements various drills for large-scale disasters including earthquakes.

In November 2009, Kao conducted a company-wide emergency reporting training exercise on the assumption that a Tokai earthquake warning was given, and the Tokai earthquake, with a magnitude of eight on the Richter scale, and an earthquake with its epicenter in the Tokyo metropolitan area of the same magnitude occurred simultaneously. As part of the training, we confirmed a series of responses, including initial tasks to be carried out in the afflicted areas, establishing a disaster prevention organization (West) centered around Wakayama and Osaka, reporting procedures, and temporarily establishing an emergency headquarters in Tochigi. For the first time, we conducted a training exercise for an enacted announcement of a warning of a Tokai earthquake and clarified response procedures on site. We will make further efforts to act safely and quickly in the event of a disaster.

In addition, the domestic Kao Group implements an exercise for employees to practice entering their personal safety status into the safety confirmation system every year as part of preparations for a large-scale earthquake or other disaster.

In 2009, we conducted the exercise from September 7 to September 13. A total of 27,449 persons, or 95% of those targeted by the exercise (up from 91% in the previous year), successfully entered their status.

In addition, we conducted a variety of disaster response drills at our offices, training centers, and plants that have introduced the Earthquake Early Warning system.

Implementing training programs for safety, disaster prevention and environmental management

To improve the level of safety, disaster prevention and environmental management, Kao provides various training programs for employees who are responsible for these fields. In fiscal 2009, Japanese Kao staff visited the plant of Kao Vietnam Co., Ltd. in July and Kao (Taiwan) Corporation in August and explained the content of a comprehensive disaster and fire prevention exercise (water-discharge exercise of outside fire hydrants, usage exercise of a fire extinguisher, rescue and emergency exercise, etc.).

TOPICS Kao's domestic and overseas plants receive safety awards

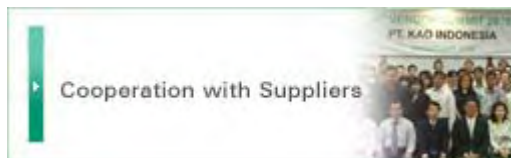
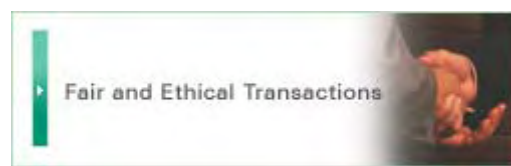
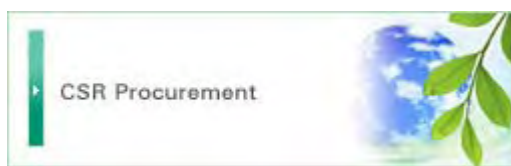
As a result of its continuous implementation of risk assessments and provision of safety education, conducted under the motto, "from no disasters to no hazards," Wakayama Plant achieved Accident-Free Record in Class 4, or 14.9 million hours (as of March 27, 2009). In July 2009, the plant received Certificate of Accident-Free Record from the Ministry of Health, Labour and Welfare. In November, Pilipinas Kao was granted the "Safety Recognition Award" from the Department of Labor and Employment, Republic of the Philippines, because it had achieved no accidents and no disasters for three consecutive years from May 2006 to May 2009. We believe that persistent efforts made by all staff as well as the enhancement of safety activities and the review of regulations that were promoted in cooperation with Kao Japan were rewarded in this form.

Responsibilities to Suppliers

To establish good, long-term partnerships, Kao shares its corporate philosophies and business goals with its suppliers. Additionally, in accordance with its Guidelines for Procurement of Raw Materials and Equipment, Kao promotes procurement activities based on our basic policies of fairness, compliance and ethics, and social responsibility.

With regard to social and environmental aspects of the Guidelines, Kao requests the cooperation of our suppliers to improve our performance. Kao is also strengthening partnerships with suppliers by promptly sharing necessary technical information to ensure our quality and specifications demands are satisfied.

- ▶ [Corporate site - CSR - CSR Procurement Efforts - Guidelines for CSR Procurement](#)



CSR Procurement

Efforts to improve the rate of suppliers meeting Kao's standards

In accordance with its Green Procurement Standards established in April 2004, Kao has been conducting evaluations of environmental efforts made by suppliers' plants, including the establishment and operation of environmental management systems (EMS).

Kao revised this Green Procurement Standards and renamed them "CSR Procurement Standards" in January 2007. Based on the revised standards, we examine and evaluate our suppliers not only based on their environmental efforts, but also on social terms, including compliance with laws and social norms and approaches taken to labor and human rights issues. In addition, Kao has expanded the scope of examinations and evaluations to include suppliers of the Asian Kao Group companies and domestic equipment suppliers.

In fiscal 2009, Kao visited the suppliers that did not meet our standards and requested the establishment of EMS along with an improvement in the levels of social efforts of the suppliers. As a result, the achievement rate in social procurement standards increased from 97% to 99%, and the achievement rate of the Green Procurement Standards increased from 96% to 98%. In addition, we began monitoring suppliers that have problems as a part of our efforts for further improvements.

Additionally, we produced a database for CSR research and evaluation results and established an online system to assist employees in charge of purchasing evaluate CSR-related risks and various suppliers. The Asian Kao Group companies are also considering such efforts to improve their suppliers' rate to meet the Kao standards.

Number of suppliers surveyed and the percentage of suppliers that met CSR Procurement Standards in social terms

	Number of suppliers of Kao Corporation	Number of suppliers of the Asian Kao Group
Up to Fiscal Year 2008	925 (97%)	353 (98%)
Up to Fiscal Year 2009	934 (99%)	380 (98%)

Number of plants of suppliers surveyed and the percentage of plants that met CSR Procurement Standards in environmental terms

	Number of plants of Kao Corporation's suppliers	Number of plants of the Asian Kao Group's suppliers
Up to Fiscal Year 2008	1,247 (96%)	215 (94%)
Up to Fiscal Year 2009	1,256 (98%)	242 (95%)

Fair and Ethical Transactions

Implementation of a supplier satisfaction survey

Kao commissions an outside company to conduct a supplier satisfaction survey in order to confirm whether Kao is perceived to be conducting fair and ethical procurement activities. This anonymous survey asks our suppliers to evaluate some 30 items, including supplier selection, required quality, interpersonal interactions, and communication.

In fiscal 2009, based on the results of the survey conducted in fiscal 2007, Kao implemented measures to promote fair and transparent selection of suppliers, such as (1) clearly conveying Kao's decisions to contract or not contract, (2) disclosing the evaluation results, within the limitations of confidentiality agreements, and (3) standardizing the estimates and specifications. In addition, we made efforts to further improve our procurement activities by reviewing our basic contracts to clarify transaction conditions and reasserting the importance of face-to-face communications.

In fiscal 2010, Kao will implement a new supplier satisfaction survey to reflect the results in the improvement of its daily procurement activities.

Establishing an organization to deal with the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors (so-called "Subcontract Act")

To ensure that its transactions with suppliers are fair and ethical, Kao urges its individual business offices, divisions, and affiliates to establish their own organizations to respond to the Subcontract Act and to conduct voluntary inspections to ensure thorough compliance with the Act in accordance with our internal guidelines.

In fiscal 2009, Kao established a management organization to clarify the overall responsibilities pursuant to the operation of such organizations engaged in responding to the "Subcontract Act."

Implementation of internal education programs on the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors

In July 2009, the Kao Group in Japan provided e-learning programs on the Subcontract Act targeting 837 employees, both new and those who previously have not participated in the program, responsible for carrying out tasks related to the Act. In addition, we held seminars on the Subcontract Act at our major 5 offices and plants, including Sumida Office, with sessions presented by guest speakers, including researchers from the Fair Trade Institute. Employees from targeted divisions and affiliates who perform tasks related to the Act participated in the seminars.

In fiscal 2010, we will provide ongoing educational activities concerning the Subcontract Act, including regular seminars, to ensure Kao's compliance with the Act.

Cooperation with Suppliers

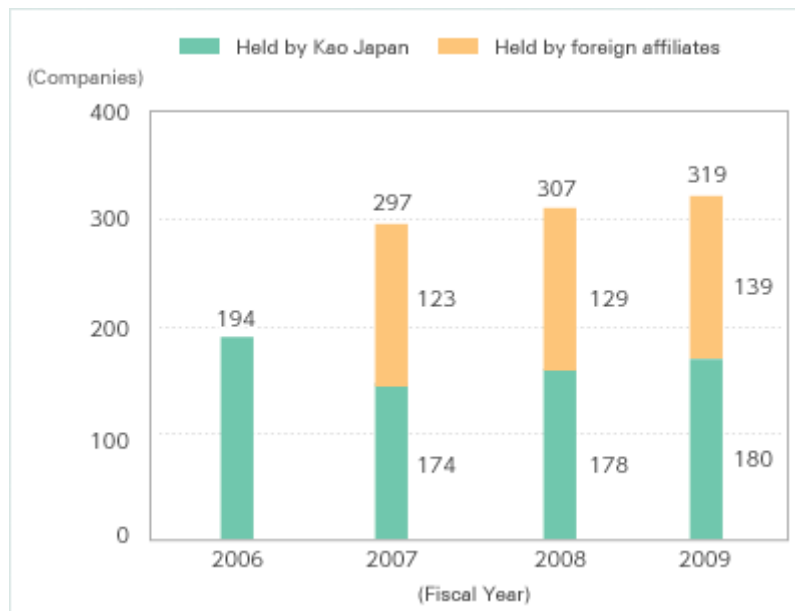
Vendor Summit

Kao holds a supplier meeting every year as an opportunity to share information and exchange views in relation to certain themes decided for each year and attempts to facilitate communication with suppliers. In addition, major foreign affiliates also hold supplier meetings ("Vendor summits") to strengthen partnership with suppliers. In fiscal 2009, a total of 319 companies participated in the meeting.



Vendor summit

Changes in the number of companies that participated in the Vendor summit



Quality improvement meetings

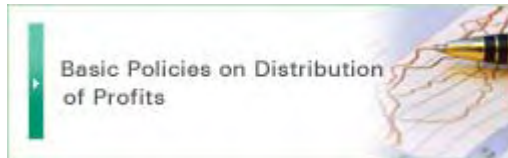
When issues of product quality, including those related to raw materials, arise, Kao responds by holding quality improvement meetings with suppliers. Attended by both representatives of Kao's Product Quality Management Division and individuals in charge of quality at suppliers' plants, the meetings provide an opportunity for both sides to confirm the contributing factors, agree on measures to address them, and promote further activities toward the improvement of quality.

In fiscal 2009, Kao held a total of 93 quality improvement meetings with the participation of 39 suppliers, dealing with such issues as wrongly shaped and poorly printed packaging and container materials.

As a future measure, Kao plans to set a goal for reducing packaging materials that do not satisfy the target values for resource and energy saving and to continue to promote quality improvement in cooperation with suppliers.

Responsibilities to Shareholders and Investors

To maintain good relations with its shareholders and investors, Kao has a basic policy of promoting information disclosure and communication and considering shareholder returns as one of our priorities.



Basic Policies on Distribution of Profits

The importance of providing shareholders with steady and continuous dividends

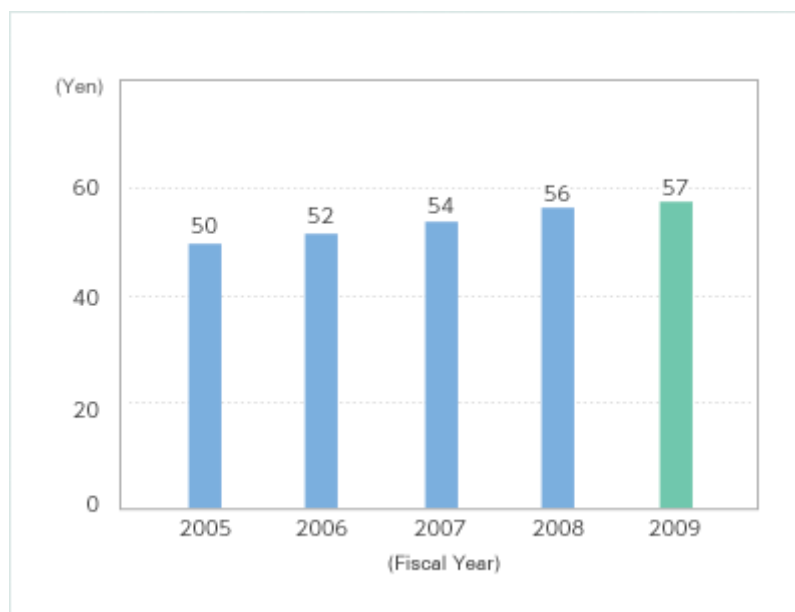
In order to achieve profitable growth, Kao secures an internal reserve for capital investment and acquisitions from a medium-to-long-term management perspective and places priority on providing shareholders with stable and continuous dividends. In addition, Kao flexibly considers the repurchase and retirement of shares from the standpoint of improving capital efficiency.

In fiscal 2009, net income decreased by 37.2% compared with the previous fiscal year, amid a severe business environment. However, Kao increased the annual cash dividend for the fiscal year ended March 2010 from that of the previous fiscal year by 1.0 yen per share to 57.0 yen per share. This marked the 20th consecutive increase of Kao's annual dividend payment. The consolidated dividend payout ratio * was 75.4%.

* Dividend payout ratio

The dividend payout ratio is the percent of net income paid out as dividends.

Changes in Dividends Per Share



Disclosure of Information and Communication

Promoting fair disclosure of information

Kao has a basic policy of disclosing information in a timely, accurate and fair manner in accordance with its Disclosure Guidelines.

With regards to the earnings announcement, Kao files its reports of financial results, quarterly and annual securities reports, and presentation materials used at the analysts meeting, on the online Timely Disclosure Network (TDnet). This information is also posted in the Investor Relations section of Kao's website. From the perspective of timely and fair disclosure, Kao discloses information in Japanese and English simultaneously, in principle.

In fiscal 2009, Kao received inquiries from shareholders concerning the business results and management strategies as well as the change in the number of shares in each unit share. Inquires from institutional investors included questions on the introduction of International Financial Reporting Standards (IFRS).

Kao intends to make further improvements with regard to its IR activities, focusing on the aspects of enhancing dialogue with institutional investors and improving IR activities for individual investors.

Overview of IR Activities

- Financial results briefings: Held twice a year (same day as results are announced)
- Overseas IR tours: Held three times a year (for each of the three areas of North America, Europe and Asia)
- Business briefings and facility tours: Held three times a year
- One-on-one meetings: Over 250 interviews in and outside of Japan
- Small meetings
- Disclosure of information on corporate website
- Issuance of the shareholders' reports (year-end and interim) "*Kabunushi no Minasamae*" (Japanese version) and the Annual Report (English version)
- Provision of IR information through RSS feed distribution *

* RSS feed distribution:

A distribution system that automatically provides subscribers with a newsfeed every time a website is updated.

TOPICS Change in the number of shares in each unit shares

To create an environment conducive to investment for investors, to further increase the liquidity of its shares, and to broaden its investor base, Kao changed its number of shares in each unit share to 100 shares from 1,000 shares on August 3, 2009. Partly due to this change, the number of individual investors as of the end of March 2010 increased by 21.9% from the corresponding period a year earlier. In response to the change in the number of shares in each unit share, Kao changed the ratio of its American Depositary Receipts (ADRs) to common stock to 1:1 from 1:10 in December 2009.

Promoting the activation of Shareholder Meetings and the facilitation of the exercising of voting rights

To provide shareholders with enough time to examine agenda items, Kao usually sends a convocation notice approximately one month prior to the Annual General Meeting of Shareholders. In addition, to increase the number of shareholders who exercise their voting rights, Kao has introduced an electronic voting system for the regular Annual General Meeting of Shareholders.

Furthermore, to provide rapid and fair information disclosure to foreign shareholders, who hold approximately half of its shares, Kao makes an English translation of the summarized convocation notice as well as the Japanese original available to them on its website at the same time as the Japanese convocation notice is sent out. Kao also posts presentation materials used at the Meeting and summary of resolutions from the Annual General Meeting of Shareholders in both Japanese and English on its website.

The Annual General Meeting of Shareholders held in June 2009 was attended by 702 shareholders.

In addition to inquiries about the agenda items, Kao received various comments and inquiries concerning topics such as Kao's overseas business development and environmental issues, and future prospects of business performance, which made for a lively meeting.

Implementation of dialogue between Kao and its shareholders and individual investors

Kao strives to promote a two-way communication between Kao and its shareholders and investors.

In fiscal 2009, Kao conducted a total of eight Kao Museum tours for shareholders over four days during the month of September, with approximately 250 people attending. In addition, to facilitate the collection of information by individual investors, Kao added "FAQ" to the "Contact us" section of "Investor Relations" on its website.

Major global SRI indexes which Kao has been included

Kao has been selected repeatedly for several of the world's leading Socially Responsible Investment (SRI) indexes, including the Dow Jones Sustainability World Index (DJSI World) developed by the US-based Dow Jones & Company, Inc., and the FTSE4Good Global Index developed by the UK-based FTSE Group.

▶ [FTSE4Good Index Series](#) 

▶ [MS-SRI Morningstar Socially Responsible Investment Index](#) 



FTSE4Good



For the Communities

Since fiscal 2000, Kao has been utilizing its management resources to conduct systematic activities under the unified theme of "Nurturing the Next Generation." Since fiscal 2007, Kao has been focusing on the more specific theme of "Creating an Environment and Developing Human Resources to Nurture the Next Generation." Under this theme, Kao has been promoting activities that aim to achieve co-existence and co-prosperity with local communities, both domestically and overseas, focusing on three important areas; environment, education, and the arts.



Environmental Activities

“Kao Creating Forests for Everyone” program

Since fiscal 2000, Kao has been running a program called “Kao Creating Forests for Everyone” aimed at preserving the lush natural environments that exist in our immediate surroundings so that they may be handed down to future generations.

The program, which is administered jointly by Kao and the Urban Green Space Development Foundation, gives support to NPOs and citizens' organizations engaged in the protection and expansion of local green areas. For nine years until fiscal 2009, Kao has supported 336 organizations, involving a total of approximately 150,000 citizens. As part of the forest conservation and management, these organizations have thinned trees and planted approximately 98,000 seedlings.

As a result, an area of about 2,731 hectares of forest has been maintained, with these trees absorbing the equivalent of 2,837 tons of CO₂ emissions in total.



Kao Creating Forests for Everyone

Participating in “Enterprise Forest Project”

Kao participates in the “Enterprise Forest Project”, which Wakayama Prefecture is currently working on. The project borrows forest resources from the owners (local governments and individuals) in the prefecture free of charge, and provides them for various environmental activities. In fiscal 2007, Kao borrowed a 0.7-hectare forest in Kimino Town, Kaiso County as “Kao-no-mori, Kimino,” concluded an agreement to work on forestry preservation activities with Wakayama Prefecture and Kimino Town, and conducted a tree-planting ceremony in April 2007. Since then, with the support of the local forestry associations, Kao employees and their families have been continuously working on forestry preservation activities, including weeding and cutting underbush.



“Kao-no-mori, Kimino”



Forestry preservation activities by Kao employees

Educational Activities

Kao Earthwatch Teachers' Fellowship

Since fiscal 2003, Kao has been implementing a program for elementary and junior high school teachers, known as the Kao Earthwatch Teachers' Fellowship, in cooperation with nonprofit organization Earthwatch Japan. This program provides teachers with opportunities to go overseas during the summer vacation period to work with local researchers on projects aimed at preserving biodiversity. When they return, they can incorporate their experiences into environmental education activities they conduct with their students.

In fiscal 2009, Kao sponsored five projects in Canada, the United States, Kenya and Mongolia, in which a total of 10 teachers participated. Since the beginning of the program, we have conducted a total of 22 projects for 69 teachers. In addition, Kao prepared a report on this program to date and distributed it to education boards nationwide.



Kao Earthwatch Teachers' Fellowship

Holding science experiment classes

In support of science education for elementary to senior high school students, Kao provides schools science experiment classes taught by our own researchers under the theme of "Science in everyday life".

In addition, to support scientific experiments conducted by teachers, we offer materials and give seminars showing how experiments can be conducted in a classroom setting.

In fiscal 2009, we cooperated with 11 educational institutions and organizations.

Supporting institutions

- Cooperation to the Science Museum's special exhibit "Science of Making Beauty"
- Science Club of the Science Museum
- Members' Club "Friends of Miraikan" of the National Museum of Emerging Science and Innovation (Miraikan)
- Chem Chem Club of the Chemical Society of Japan
- Tokyo Metropolitan Chofu-kita High School
- Tokyo Denki University Junior High School/High School
- Kaisei Academy (Kaisei Junior and Senior High Schools)
- Secondary Education School attached to the Faculty of Education, University of Tokyo
- Higashishirakawa Junior High School, Higashishirakawa Village, Gifu Prefecture
- Shinnan Elementary School, Wakayama City, Wakayama Prefecture
- Hasakinishi Elementary School, Kamisu City, Ibaraki Prefecture



Science experiment class

Support science education with an external organization

To support science education, Kao has been a sponsor of the Japan Science & Engineering Challenge (JSEC) hosted by the Asahi Shimbun, a contest for research on science and technology by high school students, since fiscal 2005. In addition, Kao views the JSEC as one of the activities to improve the quality of science research and presents the Kao Award to excellent research every year. In fiscal 2009, the Kao Award was presented to research entitled "Research on *Holopedium gibberum*" by Nagasaki Prefectural Nagasaki Nishi High School.



The JSEC awards ceremony

TOPICS**Providing cooperation to "Science of Making Beauty" organized by the Science Museum**

In August 2009, the special exhibition "Science of Making Beauty" was held at the Science Museum, and five cosmetics companies, including Kanebo Cosmetics and Kao cooperated with the displays. This special exhibition was the museum's first experiment focusing on mothers with daughters and drew approximately 50,000 visitors. Kao provided findings from anti-aging studies and research data on the structure of hair by race. Kao also instructed and supported the "Parent-and-Child Experiment Class." Kanebo Cosmetics also provided the latest findings on brain science and makeup as well as hands-on exhibits including a life-size mirror with which you can see the image of yourself from other peoples' eyes. All of these drew a lot of attention from visitors and have been utilized at public museums across the country as traveling exhibits following the end of the special exhibition.



Workshop participants

Supporting career education

To support career education, so important in developing children's zest for living, Kao sends its employees to junior high and high schools as lecturers. We also accept student visits to our companies for study tours. In fiscal 2009, we cooperated with six groups.

Supporting institutions

- Fukushima Prefectural Asaka High School
- Tochigi Prefectural Utsunomiya Girls' High School
- Hiroshima Prefectural Fukuyama Seishikan High School
- Kichijo Girl's School (Junior High and High Schools)
- Kudan Secondary School, Chiyoda-ku, Tokyo
- Science Cafe "Neutron Scattering Experiment"
(Cooperation to the Science Partnership Project)

TOPICS**Kao received a letter of appreciation for its long history of hosting school study tours**

In recent years, career education has been attracting attention, and an increasing number of junior high and high schools incorporate company visits into integrated study periods or school excursions. Kao has hosted such visit programs for many years and recently received a letter of appreciation for its support activities from Hiroshima Prefectural Fukuyama Seishikan High School. We will continue to work on education support activities.



Kao employees with the letter of appreciation

Arts and Cultural Activities

Kao Community Museum Program

Since 2007, the Kao Community Museum Program has provided aid to citizens' groups with museums as the base of their activities. By funding various museum-based civil activities around the country, the program not only contributes to the development of community civil life and regional culture but also to the revitalization of the museums themselves. In addition, the program also supports exchanges between citizens' groups. In 2009, Kao began providing "Third-year aid" to promote the diffusion and publication of activities.



Presentation ceremony for Kao Community Museum Program

Kao Family Concerts

Kao regularly organizes "Kao Family Concerts" near its facilities to give local residents an opportunity to listen to high-quality music and develop their appreciation for music. Kao positions the concerts as a program combining contribution to local communities with philanthropic activities. These concerts are managed and staffed by Kao employees, including site arrangements and announcements. In addition, all ticket revenues (tickets are sold for ¥1,000 each) are donated to music education. In fiscal 2009, three concerts were held in Saijo City, Ehime Prefecture, Sakata City, Yamagata Prefecture, and Tochigi Prefecture.



Kao Family Concert in Saijo

Supporting the artistic and cultural endeavors as well as scientific and technological research

The Kao Foundation for Arts and Sciences, which was established in 1990 to commemorate Kao's 100th anniversary, supports and commends fine arts, music and other artistic and cultural endeavors along with creative scientific and technological basic research.

In fiscal 2009, Kao Foundation for Arts and Sciences provided 53.3 million yen for 107 different groups and offered cash awards to five projects totaling 3.5 million yen. Since its establishment, the Foundation has donated a total of 931.95 million yen to 1,454 benefactors.

We will continue to conduct these activities and are currently proceeding with the preparations to transform the Foundation into a public interest incorporated foundation in fiscal 2010.



Presentation Ceremony of Kao Foundation for Arts and Sciences

Employee Participation Activities

The Pink Ribbon Campaign

The Pink Ribbon Campaign is a social contribution program jointly implemented by Kao Corporation, Kao Customer Marketing Co., Ltd., Kanebo Cosmetics Inc., and Kanebo Cosmetics Sales, Inc. since 2007. This is an awareness-raising campaign aimed at informing as many consumers as possible about the benefits of early breast cancer detection and providing them with accurate information about the disease in the form of leaflets distributed to customers by the in-store beauty advisers/counselors wearing pink ribbons for Kao *Sofina*, *Est* and Kanebo Cosmetics. In fiscal 2009, we implemented this campaign in the Kao *Sofina* and *Est* sections in Shanghai and Hong Kong.



Awareness-raising campaign in action at a store (*Est* section)



Awareness-raising campaign in action at a store of Kanebo Cosmetics



Awareness-raising campaign in action at a store in Shanghai

Kao Heart Pocket Club

Kao Heart Pocket Club is a volunteer charity organization run by employees who save part of their salary every month for the club's funds, and uses them to contribute to social activities. Specifically, the club provides funds to support civil activity groups and for relief activities of widespread disasters. In fiscal 2009, the club provided funds to 48 NPO and NGO activities (including assistance community support fund) and for relief activities of five widespread disasters. In addition, with the aim of supporting civil activity groups that operate in areas where Kao's offices and plants are located using part of the funds, the club has been providing funds to citizens' activity groups operating in the Tochigi area since fiscal 2007, in cooperation with the Tochigi Volunteer Network, a specified nonprofit organization that operates within the region. Since fiscal 2008, the club has been operating a similar program in the Wakayama area in cooperation with the Wakayama NPO Center, a specified nonprofit organization that operates within the region. In fiscal 2009, the club decided to provide funds to six organizations in Tochigi and 10 organizations in Wakayama. The club's activities are powered by the "participation of employees," and for the two areas, the final selection of organizations to which the club provides funds is decided by employee voting. Kao supports the Tochigi Volunteer Network and Wakayama NPO Center by subsidizing its infrastructure development expenses as well as operational and administrative expenses.



Presentation ceremony of community support in the Wakayama area

Activities toward the Creation of Better Communities

Promoting activities to achieve a barrier-free society

Kao implements various activities to contribute to the achievement of a barrier-free society that allows all people, with or without disabilities, to be able to fully enjoy their lives.

Providing voice information for people with visual disabilities

Kao has been producing the Kao Voice Guide for Everyday Life, which provides details on Kao's products and related information on DAISY* (Digital Accessible Information System) CDs for people with visual disabilities and has distributed them to approximately 1,300 listeners a year free of charge since fiscal 1999. Every year, we issue a new version of the Voice Guide around July every year and have made it available on our website since fiscal 2007 so that more people with and without disabilities are able to access the information.

In fiscal 2009, we produced the Kao Voice Guide for Everyday Life 2009. In addition, we edited part of its contents concerning information on everyday living and put them on a regular audio CD, and issued the "Science in Everyday Life - Basics of Bathing." This CD was donated to about 130 organizations, including Braille libraries.

* DAISY (Digital Accessible Information System)

An information system that was developed as an international digital recording standard for people with visual disabilities or other difficulties in reading regular printed materials. A DAISY CD can store as much data as about 20 normal CDs.



Kao Voice Guide for Everyday Life 2009



"Science in Everyday Life - Basics of Bathing"

Producing a video that shows the lives of people with disabilities

In collaboration with the Accessible Design Foundation of Japan, Kao produced a video showing the lives of people with various disabilities to raise awareness among more people. Kao donates this video to schools across the country who express their interests in using it in classrooms for morals and integrated studies.

TOPICS

Cooperation in universal design efforts by Kumamoto Prefecture

Kumamoto Prefecture has established an ordinance of people-friendly town development and adopts universal design (UD) as a basic philosophy of managing prefectural politics. As part of UD promotion activities, the prefecture produced "Universal Design Traveling Museum" as an educational tool to deepen the understanding of UD through actually touching and using the UD products. It is lent to various organizations within the prefecture for integrated studies at schools and various local events. Kao cooperated with this effort by providing its shampoo and conditioner bottles as UD products to the Universal Design Traveling Museum. A guidebook that can be used in the classroom is also packaged in the Universal Design Traveling Museum, along with quizzes to raise children's interests. Kao hopes that people will gain deeper understanding of the universal design through this effort.



Kao's products donated to the Universal Design Traveling Museum. By touching the bottles, everyone can easily recognize the difference between a shampoo and conditioner depending on the presence or absence of markings on the bottles.



Using the Universal Design Traveling Museum at Miyaji Elementary School in Aso City

Plant tours

Kao conducts plant tours at all domestic plants of Kao Group companies.

In fiscal 2009, the number of participants decreased from the previous year partly due to the effect of the new influenza. However, a total of approximately 29,000 people, including neighboring residents, elementary school children, junior high and high school students, university students, and members of various citizens' groups, participated in tours at eight of our plants.

In addition to the introduction of the manufacturing process of Kao products, tours include demonstrations of scientific experiments to get students interested in science and technology.



Scientific experiment demonstration

Disaster Relief Activities

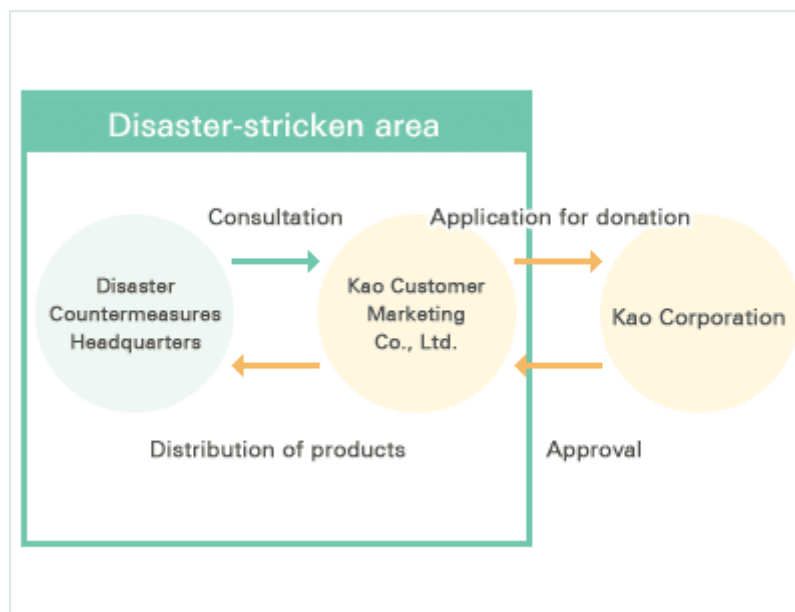
Providing donations for disaster relief based on the Kao Group's unified standards

In 2007, Kao established the Global Donation Guidelines to regulate donations for disaster relief among other things. Under the guidelines, donations can be given for disasters falling into one of the following three categories:

1. In Japan, major disasters for which a Disaster Countermeasures Headquarters is established by local governmental authorities:
2. In other countries, disasters that occur in the countries and regions where Kao Group companies are located, and for which assistance is needed: or
3. Large-scale disasters that occur in the rest of the world

For disasters that occur in Japan, our basic response is to provide donations in the form of Kao products that are needed by people affected. In consultation with a Disaster Countermeasures Headquarters, we provide needed products as quickly as possible.

Flow of distribution of products for disaster relief



Disaster Relief Activities in Fiscal 2009

Disaster	Time of Year	Disaster Relief Response
Torrential rain in Chugoku and North Kyushu in July 2009	July	Kao Corporation and its employees donated 400,000 yen in relief money. The company also provided isolated settlements with relief supplies in the form of shampoos, conditioners, and toothpaste.
Typhoon No.8 (Morakot)	August	The Kao Group provided products worth 6.7 million yen as relief supplies.
Typhoon No.9	August	Kao Corporation provided its products worth 1.8 million yen as relief supplies.
Typhoon No.16 (Ketsana) in the Philippines	September	Kao Corporation and its employees donated 1.4 million yen in relief money.
Padang earthquake in western Sumatra, Indonesia	September	The Kao Group and its employees donated approximately 2.5 million yen in relief money. The group also donated products worth 300,000 yen.
Haiti Earthquake	January	The Kao Group donated approximately 1.7 million yen and provided assorted sanitary goods worth approximately 400,000 yen.
Chile Earthquake	February	Kao Corporation and its employees donated 500,000 yen in relief money.

Corporate Citizenship Activities Overseas

TOPICS Kao Industrial (Thailand) employees participated in a tree-planting program as a part of the “Forests for the Future Project in Thailand”

Following a sharp decline in the area of forested land in Thailand, the “Forests for the Future Project in Thailand”, which aims to plant 500,000 trees over five years, commenced in 2007 under the leadership of the Foundation for Global Peace and Environment (FGPE) and the United Nations Environment Programme (UNEP). Kao Corporation supports this activity, and Kao Industrial (Thailand) Co., Ltd. not only provides *Attack Easy* to participants, but also encourages its employees to volunteer for tree-planting work.

In September 2009, a tree-planting forum was held for the project, and 80 Kao Industrial (Thailand) employees and their families participated as volunteers. We will continue our efforts to solve social issues and conduct corporate citizenship activities to become a company trusted by the people of Thailand.



Forests for the Future Project in Thailand

TOPICS Tree-planting activities in the Greening Community Program

On November 10, or “Hero's Day” in Indonesia, P.T. Kao Indonesia conducted environmental conservation activities and held a tree-planting event at a junior high school in Jakarta City. This activity, which falls under the “Greening Community Program of P.T. Kao Indonesia,” is designed to teach the importance of environmental conservation to children as bearers of the future by planting trees at schools and the surrounding areas. In 2009, Santo Franciscus Assisi Junior High School was selected as a candidate school, and many students participated in the activity. A total of 125 trees including guava, matoa and jackfruit were planted. In the future, we hope to expand this activity outside Jakarta City.



Ceremony in which memorial trees were donated



Participants in the tree-planting activity

TOPICS

Shanghai Charity Foundation recognizes Kao (China) Holding Co., Ltd.'s efforts

Kao (China) Holding has been donating household products to the Shanghai Charity Foundation Material Management Center* to support people in poverty since 2006. In November 2009, a ceremony was held by the Shanghai Charity Foundation, and Kao was awarded a certificate to honor role as a sponsor. A significant economic gap exists in China, and various organizations including universities are actively conducting charitable work. Products we donate are distributed to universities and professional universities in Shanghai City. Kao (China) Holding will continue to conduct charitable activities for people who need support and assistance.

* Shanghai Charity Foundation Material Management Center

This organization under the auspices of the Shanghai Charity Foundation was established in June 2000 as a specialized agency commissioned by the Shanghai Civil Affairs Bureau and the Shanghai Charity Foundation to stock and manage donated charity items, in accordance with the constitution, laws, regulations and policies of People's Republic of China.



Donation ceremony held at the East China Normal University



Daily necessities donated from many companies are stacked in the "Students' Charity House" at the East China Normal University (Kao products in the photo)

TOPICS

Kao Specialties Americas implements an environmental beautification activity

As a part of its corporate citizenship activities, Kao Specialties Americas LLC (KSA) participated in the "Adopt-A-Highway" program operated by the North Carolina Department of Transportation in 2009. KSA employees and their families conduct environmental beautification activities on a regular basis, such as collecting garbage on highway shoulders. The participants said they were delighted to be able to contribute to their local communities. This project provides KSA employees with an important opportunity to reconsider the surrounding environment. KSA plans to actively continue with this activity once every three months.



Participants in the environmental beautification activity

Corporate Citizenship Activities in Fiscal 2009 (Kao Group overseas)

Kao Group Companies outside Japan	Activities
Kao Brands Company (USA)	<ul style="list-style-type: none"> ·Volunteering in local primary school literacy program ·Donation of Christmas presents to disadvantaged children ·Fund-raising to support local art ·Cooperating with events to help campaign against cancers and prevent premature births
Kao Specialties Americas LLC (USA)	<ul style="list-style-type: none"> ·Donations to charitable activities ·Highway clean-up activities
Molton Brown Limited (UK)	<ul style="list-style-type: none"> ·Donations for cancer research ·Providing assistance to disadvantaged children
Kao Chemicals GmbH (Germany)	<ul style="list-style-type: none"> ·Supporting the employment of people with disabilities ·Donations to charity organizations
KPSS - Kao Professional Salon Services GmbH	<ul style="list-style-type: none"> ·Assistance for disadvantaged children ·Supporting the career research and patient care ·Donations to charity organizations
Kao Corporation GmbH	<ul style="list-style-type: none"> ·Supporting the career program for female students
Kao Corporation S.A. (Spain)	<ul style="list-style-type: none"> ·Supporting the publication of a community magazine ·Supporting for a local children's soccer team
Kao (China) Holding Co., Ltd.	<ul style="list-style-type: none"> ·Donations of Kao products to charity organizations ·Holding chemistry experiment classes for local elementary school students
Kao (Hong Kong) Limited	<ul style="list-style-type: none"> ·Donations of Kao products to charity organizations ·Sponsoring activities to prevent blindness
Kao (Taiwan) Corporation	<ul style="list-style-type: none"> ·Providing traffic safety education to local elementary school students ·Beach cleanup
Kao Industrial (Thailand) Co., Ltd., etc.	<ul style="list-style-type: none"> ·Providing assistance to local disadvantaged children, including scholarships
Pilipinas Kao, Incorporated	<ul style="list-style-type: none"> ·Providing assistance to local disadvantaged children by offering scholarships and subsidizing school expenses ·Providing aid to a flood-stricken district

P.T. Kao Indonesia	<ul style="list-style-type: none"> · Providing aid to impoverished people · Regional greening · Providing aid to flooded and earthquake-stricken areas
P.T. Kao Indonesia Chemicals	<ul style="list-style-type: none"> · Cooperating with the local safety system · Providing aid to impoverished people · Providing aid to an earthquake-stricken areas
Kao (Malaysia) Sdn. Bhd.	<ul style="list-style-type: none"> · Donations of Kao products to child welfare facilities · Providing menstruation education to local junior high schools
Fatty Chemical (Malaysia) Sdn. Bhd. and three other companies	<ul style="list-style-type: none"> · Visiting welfare facilities for children and elderly people and donating Kao products · Providing long-term technical assistance
Kao Vietnam Co., Ltd.	<ul style="list-style-type: none"> · Providing menstruation education to local junior high schools
Kao (Australia) Marketing Pty. Ltd.	<ul style="list-style-type: none"> · Providing aid to areas stricken by forest fires
Quimi-Kao S.A. de C.V.	<ul style="list-style-type: none"> · Donations to welfare facilities for elderly people and children · Donations of Kao products to prevent influenza

Environmental Activities

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Environmental Activities

Kao uses vegetable fats and oils, and fossil resources as core raw materials for its products. Energy is also required during every phase of each product's life cycle, from material procurement, production, distribution, sales, and use to final disposal. This all adds up in terms of our environmental impacts. Recognizing the effect of our business operations, Kao strives to use resources efficiently throughout the entire life cycle of each of its products. It also seeks to make ever greater contributions toward resource and energy conservation through the pursuit of new technologies. As a Group that handles chemical substances, we recognize the necessity of promoting environmental activities based on the recognition of the impacts of our business operations and use of chemicals on both the human body and the ecological system throughout the entire life cycle of each of our products. Under a rigorous chemical substance management system, Kao is promoting product development and production activities that have the least possible impact on the environment, with the goal of expanding business while reducing environmental impacts.

- * "Environmental Activities" only covers domestic Group companies as a general rule. Where data is collected from an organization other than the above, it is specified accordingly.



Aiming to achieve the Medium-term Objectives stipulated in the Environmental Statement

Promoting activities with stakeholders

The Kao Group announced the Environmental Statement in June 2009 to make public its intention to promote ecological management that positions ecology at the core. For our environmental activities, we published the slogan "eco together" to realize the sustainability of both global environment and society, in cooperation with consumers/customers, business partners, local communities and all other stakeholders. To this end, we set the medium-term objectives towards the year 2020 and have embarked on various activities to achieve the targets.

Implementing programs to reduce CO₂ emissions throughout the entire product life cycle

The Kao Group aims to achieve a 35% reduction of CO₂ emissions (per unit sales in Japan) from 2005 throughout the life cycle of its consumer products by 2020. To achieve this target, we are reinforcing efforts already being implemented in various divisions. In production, we are introducing cogeneration systems and heat-pumps. In distribution, we are promoting a modal shift of transportation from truck to rail and ship, as well as conducting efficient transportation management using the product demand forecast system. At each plant and business office, energy conservation efforts are ongoing. Moreover, we launched liquid laundry detergent *Attack Neo* in August 2009. Our ultra-concentration technology has made a single rinse cycle possible, saving water and time as well as reducing the use of electricity. This is the first of our products to embody 'eco together' with consumers/customers through the reduction of CO₂ emissions at home.



Attack Neo (left) and its refill (right)

Creating new environmentally friendly products to reduce water consumption

The Kao Group aims to reduce water consumption in the usage of our products by 30% (per unit sales in Japan) from 2005 by 2020. Although we are proud of *Attack Neo*, contributing greatly to water conservation because it requires only a single rinse cycle, it is indispensable for us to create other eco-innovation products to achieve this target. The Kao Group will make greater efforts to develop environmentally friendly products, such as *Attack Neo*, utilizing its proprietary technologies.

Management of chemical substances

The Kao Group is committed to consistent chemical management using its own management system. We will reinforce our ongoing efforts focused on the chemical industry's voluntary initiative for the environment and safety, "Responsible Care," moving from hazard-based to risk-based management, which considers exposure levels in terms of people and the environment. At the same time, we will continue to make proactive efforts in chemical substances management in line with the Strategic Approach to International Chemicals Management (SAICM), the international agreement reached at the Johannesburg Summit (World Summit on Sustainable Development (WSSD)).

Measures for biodiversity

The Kao Group manufactures its products with the blessing of nature, such as its usage of palm and coconut oils as raw materials. Based on the recognition that our business activities have an impact on biodiversity, we are implementing programs to preserve biodiversity by participating in, as one example, the Roundtable on Sustainable Palm Oil (RSPO). We also promote the Kao Teachers' Fellowship and Kao Creating Forests for Everyone programs to raise awareness among employees and the community.

TOPICS "eco together" logo label

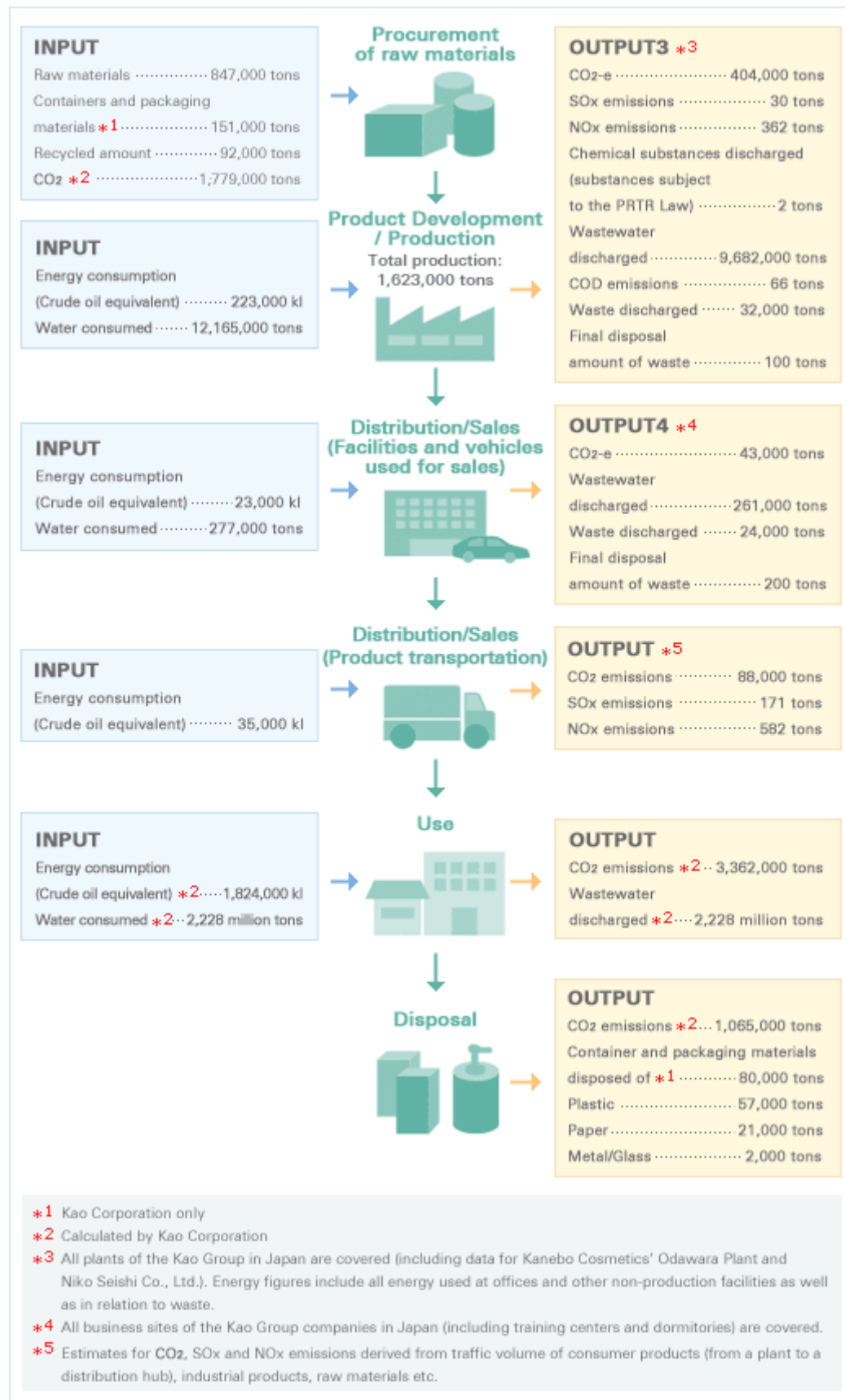
To communicate its corporate commitment to engage in even more environmentally friendly manufacturing, the Kao Group displays 'eco together' labels on products that have satisfied Kao's independent environmental criteria, so that consumers can easily recognize that the product is environmentally friendly. We aim to steadily increase the number of products carrying this logo.



"eco together" logo

Product Life Cycle and Environmental Impact

Fiscal 2009 Business Operations and Environmental Impact



Definitions of Terms used in "Business Operations and Environmental Impact"

INPUT

- Raw materials: The amount of raw materials directly used to manufacture products
(excluding containers and packaging materials and fuel)
- Containers and packaging materials: Total amount of cardboard, containers and packaging materials used for products sold
- Recycled amount: Of the waste generated from production and research activities, the amount that is recycled within Kao
- CO₂ emissions: Emissions from manufacturing of raw materials
- Energy consumption (Product Development and production): Amount of energy consumed at production sites
- Energy consumption (Distribution and sales (facilities and vehicles used for sales): Amount of energy consumed at offices and other facilities and for vehicles (used for sales activities) in the distribution and sales divisions
- Energy consumption (Distribution and sales (product transportation): Amount of energy consumed as calculated from traffic volume of consumer and industrial products, raw materials etc.
- Energy consumption (in use): Amount of energy consumed in use of consumer products
- Water consumption: Industrial water, tap water and well water consumed

OUTPUT

- CO₂-e: Amount (CO₂ equivalent) of greenhouse gas (the six gases specified in the Kyoto Protocol) emissions generated from business activities
- SO_x emissions: Total amount of SO_x emissions from smoke- and soot-emitting facilities and transportation
- NO_x emissions: Total amount of NO_x emissions from smoke- and soot-emitting facilities and transportation
- Chemical substances discharged: Amount of substances subject to the PRTR Law discharged into the air and public water
- Wastewater discharged: Sum of wastewater discharged from production plants, distribution and sales offices and the water consumed in use of consumer products
- COD emissions: Figure obtained by multiplying the amount of wastewater by COD concentrations in the wastewater
- Waste discharged and final disposal amount of waste: Amount of waste from production sites, distribution and sales offices, and other facilities that is sold or entrusted as waste or recyclable materials to waste treatment companies, and the amount of waste put for final disposal
- CO₂ emissions: Emissions from consuming energy and those upon decomposition of ingredients
- Containers and packaging materials: Total amount of containers and packaging materials (excluding cardboard) used for products sold

Environmental Targets and Results

Fiscal 2009 Results and Targets for the Future

In fiscal 2009 we were not able to achieve the targets set for CSR Procurement, for which in 2008, we expanded the scope of investigation to include activities for improvement in cooperation with suppliers. We will continue to work to achieve the target in 2010. Meanwhile, we achieved the targets for energy conservation (basic unit index) and greenhouse gas emissions (basic unit index) at production sites, for which we introduced more rigorous targets in 2008, and also for VOC substances discharged.

- ▶ [Data on Environmental Impacts by Production Site \(Domestic\)](#)
- ▶ [Data on Environmental Impacts by Production Site \(Overseas\)](#)

Environmental Activity Targets and Results

Priority objective	Relevant division	Fiscal Year 2009 targets	Fiscal Year 2009 results*1		Fiscal Year 2010 targets
Energy conservation	Production sites	Reduce total energy consumption to 63*3 in the basic unit index*2	Achieved	61	Reduce total energy consumption to 62*3 in the basic unit index
	Other than production sites	Reduce energy consumption by 1% (from Fiscal Year 2008)	Achieved	Reduced by 6%	Reduce energy consumption by 3% (from Fiscal Year 2007)
Reduction of transportation fuel consumption	Production & Engineering Division, Logistics Division and Chemicals	Reduce transportation energy by 1% (from Fiscal Year 2008) in the basic unit index*4	Achieved	Reduced by 6%	Reduce transportation energy consumption by 4% (from Fiscal Year 2006) in the basic unit index
Global warming prevention	Production sites	Reduce GHG*5 emissions to 57*3 in the basic unit index	Achieved	54	Reduce GHG emissions to 56*3 in the basic unit index
		Reduce GHG emissions to 86 (Fiscal Year 1990 level = 100)	Achieved	78	Reduce GHG emissions to 86 (Fiscal Year 1990 level = 100)
	Other than production sites	Reduce GHG emissions by 1% (from Fiscal Year 2008)	Achieved	Reduced by 14%	Reduce GHG emissions by 3% (from Fiscal Year 2007)
Reduction of chemical substances discharged Chemical substances subject to the PRTR Law	Production sites	Maintain discharge volume of each substance from respective plants at 1 ton or less	Achieved	Maximum emissions were 0.9 tons	Maintain discharge volume of each substance from respective plants at 1 ton or less

VOC* ⁶ substances	Production sites	Reduce amount of each substances discharged from respective plants to 3 tons or less	Achieved	Maximum emissions were 2.9 tons	Reduce amount of each substances discharged from respective plants to 1 ton or less
Waste material reduction	Production sites	Maintain the final disposal rate at 0.2% or less (Total of wastes from all production sites)	Achieved	0.05%	Reduce final disposal amount to 150 tons or less and lower the final disposal rate to 0.1% or less (Total of waste from all production sites)
		Reduce waste generation per unit production by 0.5% (from Fiscal Year 2008)	Achieved	Reduced by 1.9%	Reduce waste generation per unit production by 0.5% (from Fiscal Year 2009)
CSR procurement* ⁷	Kao	99% or higher (Green procurement ratio)	Not achieved	98%	100% (Green procurement ratio)

★¹ Fiscal Year 2009 results

Includes all of the results of Kanebo Cosmetics Inc., except for those of reduction of transportation fuel consumption and CSR procurement.

★² Basic unit index

Amount per unit of value-added production output. Under the index, the fiscal 1990 value is defined as 100. "Value-added production output" is the amount that can be obtained by deducting the variable manufacturing cost from the production output on the basis of selling price.

★³ More rigorous targets were set in fiscal 2008.

★⁴ Transportation fuel consumption in the basic unit

Transportation fuel consumption per unit of volume of sales.

★⁵ GHG (greenhouse gas) emissions

CO₂ equivalent emissions of six greenhouse gases specified in the Kyoto Protocol.

★⁶ VOC (Volatile Organic Compounds)

Abbreviation of Volatile Organic Compounds. Kao defines the 100 substances listed in the Exhibit 1 of the Notice of the Director-General, Environmental Management Bureau, Ministry of the Environment, Japan (June 17, 2005) as VOC.

★⁷ CSR procurement

Procurement practice that gives preference to suppliers that give consideration to their responsibilities to the environment and society. The green procurement ratio refers to the ratio of plants that operate environmental management systems at suppliers' sites covered by the environmental protection investigation. Kao began investigating equipment suppliers in fiscal 2008.

Global Warming Prevention

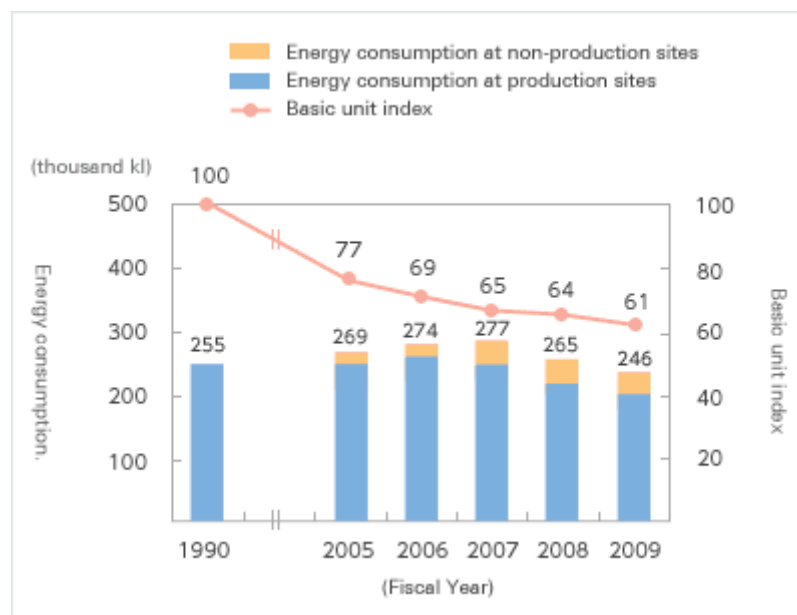
Promoting the introduction of energy-efficient equipment and streamlining of manufacturing processes

The Kao Group has undertaken a variety of initiatives to use less energy during production processes aiming to reduce CO₂ emissions.

As part of these measures, Kao has been promoting the switch from absorption chillers that use steam or hot water created by burning fossil fuel to high-efficient turbo refrigerators, powered by electricity, which exhibits better COP (coefficient of performance) and emits less CO₂. In fiscal 2009, chillers at the Wakayama and Kashima plants, as well as at Ehime Sanitary Products, were replaced with turbo refrigerators. In addition, we promote energy conservation efforts from a variety of viewpoints, such as process exhaust heat recovering, drain recovery and reduction of set pressure for compressed air.

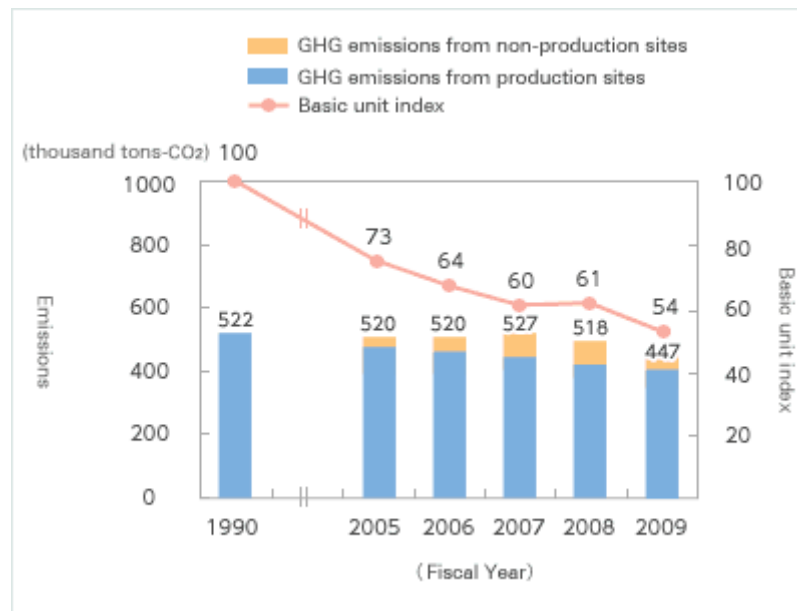
These efforts resulted in a reduction of total energy consumption of 17,000kl in crude oil equivalent from the previous year. In terms of energy consumption in the basic unit index, this represents an improvement of three points on a year-on-year basis.

Changes in Energy Consumption



- * Since fiscal 2006, Kanebo Cosmetics Inc. has been included.
- * Data for offices that do not engage in production activities are included in non-production site data.
- * For values in the basic unit index, production site data is used for calculation to ensure data continuity from past years.

Changes in GHG Emissions



- * GHG emissions (CO₂ equivalent) are calculated based on the Calculation and Reporting Manual for Greenhouse Gas Emissions (Ver. 2.4) of March 2009, published by the Ministry of the Environment and the Ministry of Economy, Trade and Industry.
- * Since fiscal 2006, Kanebo Cosmetics Inc. has been included.
- * Data for offices that do not engage in production activities are included in non-production site data.
- * For values in the basic unit index, production site data is used for calculation to ensure data continuity from past years.

Reduction of the environmental impact in distribution

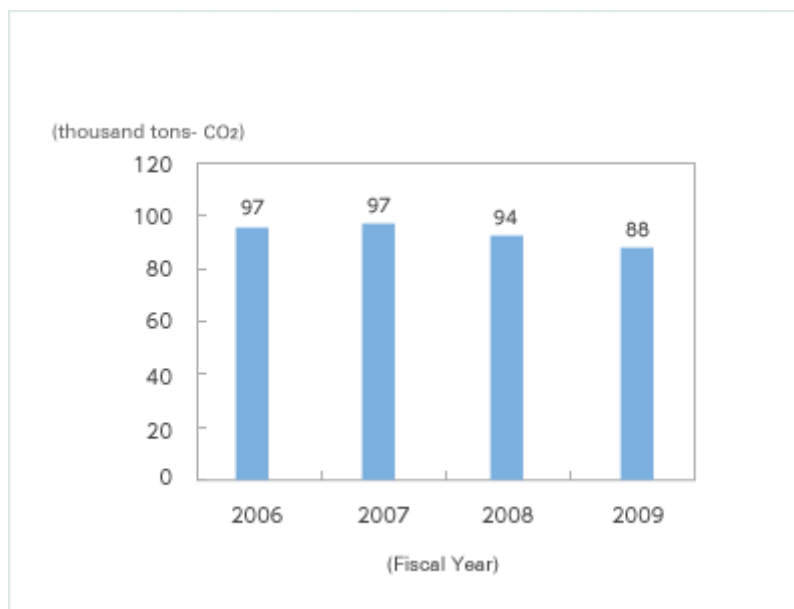
To lessen the environmental impact in distribution, Kao is constructing and operating efficient systems, promoting a modal shift of transportation from truck to environmentally friendly rail and ship, and sharing trucks with other companies. In fiscal 2009, Kao achieved a 6% reduction in transportation fuel consumption (basic unit) from fiscal 2008 for transportation of consumer and chemical products, by shortening the transport distance through reallocation of production facilities (production at several plants) and direct shipping of products. We also improved loading ratios by using larger shipment containers.

Moreover, the revision of delivery routes resulted in an improvement in the modal shift rate to 64% in fiscal 2009 (a 0.6% increase from the previous year), while the average modal shift rate in Japan stands around 40%.

Kao Logistics Co., Ltd. has provided its staff with environmentally friendly driving education, using visual images and driving data recorded by drive recorders. In addition, it has introduced hybrid cars and eco-tiers to its fleet. The company completed the introduction of eco-tiers to all its vehicles in fiscal 2009, ahead of its plan. This resulted in a 17% improvement in the fuel efficiency rate in fiscal 2009 compared with fiscal 2006 before the start of the activities.

Regarding delivery, our initiative, 'eco together' with business partners (joint efforts with suppliers and corporate customers), has started to yield some results already. Thanks to the efforts of Kao Customer Marketing Co., Ltd., business partners have agreed to cooperate in the optimization of delivery packaging, frequency and delivery days. This undertaking has produced solid results, such as higher loading ratios, shortened delivery distance, and improved fuel efficiency.

Changes in CO₂ Emissions from Transportation



- * Kanebo Cosmetics' data is included.
- * CO₂ emissions were calculated using the emission coefficients defined by the Ministerial Ordinance based on the Act on Promotion of Global Warming Countermeasures and emission coefficients specified in the Calculation and Reporting Manual for Greenhouse Gas Emissions (Ministry of the Environment; Ministry of Economy, Trade and Industry).

Participating in the "Challenge 25 Campaign"

Since fiscal 2005, Kao has participated in "Team Minus 6%," a national project to prevent global warming, and has worked to reduce energy consumption and CO₂ emissions at all offices.

In addition to the Cool-biz and Warm-biz campaigns promoted since 2005, Kao has implemented various other activities. In fiscal 2008, we set all computers to energy-saving mode* and introduced the latest multi-functional copiers to reduce electricity and paper consumption.

As a result of these endeavors, electricity consumption at all offices in fiscal 2009 fell by 2,423kW (13.4%) from fiscal 2004 (before we began these activities). This represents a reduction of 617kl in crude oil equivalent or 952 tons in CO₂.

In January 2010, the Team Minus 6% program evolved into the "Challenge 25 Campaign," a project aimed at achieving a higher CO₂ reduction target. Kao continues to participate in this new project.

* Energy-saving mode

When a machine is not used for 15 minutes, the display, hard disk, and other components go into an energy-saving mode automatically.

Implementing the Kao Group Eco Family Program

Kao launched the Kao Group Eco Family Program in June 2008 to encourage all employees of the Kao Group in Japan to keep environmental household accounts as a way of raising awareness of the environment among employees and their families, and helping them to reduce their household GHG emissions.

To involve all employees of the Kao Group in Japan, Kao has participated in the “Minister of the Environment at Your Home” project organized by the Japanese Ministry of the Environment and held explanatory meetings. Some employees expressed their thanks, saying that they were motivated after seeing graphs indicating an apparent reduction in CO₂ emissions from the previous year as a result of their two-year involvement in the program.

We will continue these efforts, encouraging more of our Group employees to participate in this program.

Efforts toward CDP

The Carbon Disclosure Project (CDP) is an initiative organized by a London-based non-profit organization representing 475 institutional investors. The organization encourages 1,800 companies throughout the world to report their climate change strategies and GHG emissions.

Kao has continued to report its related data since the first reporting in 2003 and was listed for two consecutive years, in 2008 and 2009, in the reports on Japanese companies as a company that leads the way with its information disclosure.

Since 2009, we have been involved in the CDP Supply Chain Project that aims to reduce the impact of products on the environment throughout their life cycle. Life cycle assessment (LCA) on Kao's products has revealed that CO₂ emissions associated with material procurement accounted for 28% of total CO₂ emissions, which is larger than the level of CO₂ emitted from Kao itself (10%). It is also essential to cooperate with business partners more closely to realize, and enhance the accuracy of, our carbon foot print (CFP), for which efforts have been made to make it more practical. Kao believes that it is also a key responsibility of Kao to support this initiative.

TOPICS

Photovoltaic panels installed at a distribution base

To create environmentally friendly distribution centers and delivery systems, Kao introduced a 97kW photovoltaic power generating system at Sumida Logistics Center in March 2010. Annual output will be around 86MW and this is forecast to reduce CO₂ emissions by roughly 36 tons.

We will conduct an inspection of this system and at the same time promote introduction of new energy sources.



Photovoltaic panels installed on rooftop

Clean Development Mechanism implemented at Kao Indonesia Chemicals

P.T. Kao Indonesia Chemicals introduced a gas cogeneration system that enables high energy conversion efficiency. The system was approved as a CDM project by the Japanese Government in February 2010 and by the Indonesian Government the following month. The company will file an application to the United Nations' CDM council for this system.



Cogeneration system under CDM

CDM is a mechanism defined in the Kyoto Protocol which allows industrialized countries to meet their GHG emission reduction commitments through a GHG emission reduction project conducted in developing nations. With United Nations approval, any industrialized country that has set up a related project in a developing country can count amounts of carbon reduced there as their own.

The introduction of the system is expected to spell a reduction of about 4,000 tons of CO₂ emissions, which is equivalent to about 20% of the company's annual CO₂ emissions.

TOPICS

Kao Chemical Corporation Shanghai receives energy conservation award from Minhang District, Shanghai City

Kao Chemical Corporation Shanghai was recognized in September 2009 for its energy conservation efforts, receiving the 2009 Minhang District Award for Energy-saving Technical Modifications from the Economic Information Council of Minhang District, Shanghai City.



Certificate of commendation received from Minhang District

The Economic Information Council initiated the award this year to commend corporations actively involved in energy-saving measures.

The primary screenings were held in all nine towns within the Minhang District. Four companies were then selected from the finalists in the primary screenings as the award winners. The rigorous screening process involved several presentations by each candidate corporation as well as several factory inspections by government specialists.

At Kao Chemical Corporation Shanghai, the employees are making concerted efforts to reduce CO₂ emissions and save energy. The company was commended for achieving an annual reduction of 903 tons in CO₂ emissions through five major projects, including heat exhaust recovery from sulfation air dryers and installation of inverters in sulfation blowers. Kao aims to promote energy-saving initiatives on a global level based on our motto, "*Yoki-Monozukuri* with less energy."

TOPICS

Fatty Chemical (Malaysia) Wins Hibiscus Award

In November 2009, Fatty Chemical (Malaysia) Sdn. Bhd. (FCM) received the Prime Minister's Hibiscus Award, Malaysia's national environmental prize.

The Hibiscus Award is presented every two years to businesses reflecting excellent environmental stewardship. Eligibility extends to companies from any industrial or other sector operating within Malaysia. Winners receive the right to use the PMHA logo, a motif of a hibiscus flower, the national flower of Malaysia, throughout their business activities.

FCM received this award on behalf of the four other Kao firms based in the Penang State - including Kao Soap (Malaysia) (KSM), Kao Oleochemical (Malaysia) (KOM) and Kao Plasticizer (Malaysia) (KPM) - and FCM itself. The companies were recognized for organizational and systematic changes ensuring sustainable environmental management as well as for their implementation of demonstrable environmental improvements within their daily business activities.

Specifically, the companies showed significant reductions in waste through the implementation of 4R (reduce, reuse, recycle, recovery) in daily business activities, and set target levels for reductions in nitrogen, electricity and steam. Progress was also made in production facilities, including the switch from diesel oil to natural gas to reduce CO₂ emissions, the installation of heat recovery equipment on boilers, and increased capacity in wastewater treatment equipment to lessen environmental impact. The companies will continue their environmental improvement activities to aim at further development.



Employees of Fatty Chemical (Malaysia), winners of the Hibiscus Award

Development of environmentally conscious products and packaging

Pursuing better performance and lower environmental impact

Based on its product development guidelines that aim to ensure the safety and high quality of products and reduce their environmental impact, Kao is developing environmentally conscious products and putting related technologies into practical use, while enforcing the Life Cycle Assessment (LCA) designed to evaluate an impact of a product on the environment throughout the entire life cycle, from procurement of raw materials to production, distribution, use and disposal.

To this end, Kao has developed its own Standards of Product Design for Environment, and conducts qualitative and quantitative assessment and analysis on a variety of environmental and safety risk items. In fiscal 2008, Kao introduced a new index, the Environmental Impact Improvement Rate, to give a clearer indication of the degree of improvement in the environmental impact throughout a product's life cycle. By using the index, we can compare and evaluate CO₂ emissions of current "Standard Products" and those of new "Developed Products."

In the Environmental Statement published in June 2009, we also specified, as a priority theme, that we make efforts to reduce the environmental impact of products throughout their life cycle, and that we are willing to work together with various stakeholders to this end.

Using recycled polyester fibers

To develop a product with a minimal impact on the environment, Kao engaged in the development of technologies to replace polyester fibers used for dry sheets of *Quickle Wiper* with recycled fibers. With the cooperation of material manufacturers, we succeeded in replacing 100% of the fibers (90% of the product) with recycled fibers, and launched the new product in October 2003.



Surface of *Quickle Wiper* dry sheet that uses recycled fibers

Improving a plant-based plastic for easier use

Development of improved polylactide resin *ECOLA*

Poly lactide resin is a carbon-neutral, plant-based plastic that can replace petroleum-based plastic. To make it easier to use, Kao is engaged in a research to improve polylactide resin, using proprietary crystal-control and softening technologies. One of the achievements so far is the development of modified polylactide resin *ECOLA*. Having realized performance and workability comparable to conventional petroleum-based resins, *ECOLA* can be used for sheet products by extrusion molding and a wide range of plastic products by injection molding. This has played a large part in an improvement in time and effort spent on the molding process as well as in the reduction of energy consumed during molding. *ECOLA* is currently used in an instruction manual box attached to a multi-functional copier, bodies of personal computers and other applications. To widen *ECOLA*'s applications, Kao will continue to promote cooperation with various business partners.



A manual pocket, made of *ECOLA*, for a multi-functional copier
(Photo: Courtesy of Ricoh Co., Ltd.)

TOPICS

Kao wins the Environmental Technology Prize at the 41st Annual JCIA Technology Award

Kao won the Environmental Technology Prize at the 41st Annual JCIA Technology Award^{*1} in recognition of its development of runner for casting^{*2} (EG Runner). EG Runner is made of newspaper waste, formulated with inorganic fibers and thermo-hardening resins. Although it is paper-based, the runner can withstand temperatures up to 1,400 degrees Celsius. Compared with common ceramic runners, it is lightweight (one-tenth), offers excellent workability and can reduce waste substantially (approximately one-sixteenth, as burnt residue of runners after casting process). This not only improves workability but also lessens the environmental impact.

The EG Runner is used widely in Japan and overseas (Germany, South Korea, China and Thailand). We plan to expand the market mainly into the EU and Asian countries, and we are contemplating the use of this technology for other applications. Kao will continue to make efforts to realize a sustainable society through the Kao-Quaker's foundry business.

^{*1} JCIA Technology Award

The Award was institutionalized by the Japan Chemical Industry Association (JCIA) in 1968 for the advancement of chemical technologies and development of the chemical industry. The Environmental Technology Prize is awarded to technologies that offer remarkable benefits to the reduction of environmental impacts.

^{*2} Casting

A metal working process where melted metal at the temperature of 1,400C is poured into molding sand.

Actively promoting the 3Rs for containers and packaging

Containers and packaging are a necessary component of products. They play important roles, such as enabling the provision of information and instructions for use, protecting the contents, and preserving the quality of the products during transportation. While directing research and development toward creating containers and packaging that fulfill these requirements using minimal resources, Kao is actively promoting reuse and use of recycled materials from the 3R viewpoint. We are also working to develop new containers for refill products, incorporating a universal design concept to help consumers, who sometimes experience difficulties in refilling the existing containers from a refill pouch, to do so easily.

In fiscal 2009, the amount of container and packaging materials consumed (excluding cardboard) increased 800 tons from the previous year, due to increased sales of *Healthya Sparkling*, etc.

3Rs for containers and packaging materials

1. Reduce: Concentrate contents and make containers and packaging materials more compact
2. Reuse: Reuse containers and packaging materials using refill and replacement products
3. Recycle: Use more recycled materials

Changes in Containers and Packaging Materials Used

(Unit: tons)

	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
Plastic	49,200	55,700	55,700	55,000	56,500
Paper	26,100	25,600	22,500	21,600	21,300
Cardboard	65,600	67,700	73,700	71,700	70,600
Others	3,800	3,600	3,400	2,700	2,300
Total	144,700	152,600	155,300	151,000	150,700

Reducing resin used for containers

Reduction of resources consumption by concentrating the contents of *Attack Neo*

(Comparison with *Attack Biogel* liquid detergent)



Reduction of resources consumption by reducing the thickness of *Healthy Green Tea* 350 ml bottle

Resin in bottle: Approx. 16% reduction

CO₂ emissions: Approx. 14% reduction (bottle, cap and label)

<Individual package>



<Former bottle→New lightweight bottle>



*Conversion to new bottle started in 2009 and will be implemented in Fiscal Year 2010.

Substantial simplification of individual package of *Segreta Hair Este*

Resin amount: Approx. 16% reduction

CO₂ emissions: Approx. 18% reduction (container and case)

<Former package>



<New package>



Reduction of packaging materials by simplifying product packaging

Package of *Pure Whip* 3-piece set simplified

Packaging material used: Approx. 23% reduction (pillow packaging unchanged)

CO₂ emissions: Approx. 28% reduction (pillow packaging and box)

Before

<Three individual boxes plus wrapping package>



After

<One box containing 3 pieces of the product (no wrapping package)>



Improvement of refill and replacement products

Refill packs have taken root in Japan. By having consumers refill product contents and continuously use the same plastic containers for shampoo and liquid detergent, Kao helps reduce the use of natural resources as well as the amount of waste.

Kao released its first refill packs in 1991 and has continued releasing more refill products. As of March 2010, Kao offers 138 refill products. To make it easier for consumers to refill plastic bottles, Kao has modified refill products in accordance with the bottle sizes and the viscosity of contents.

▶ Refill and replacement products

Meanwhile, we do not recommend that consumers refill certain products, from the viewpoint of the product's nature and safety. For such products, we make certain parts of a container to be reusable, such as spray nozzles.



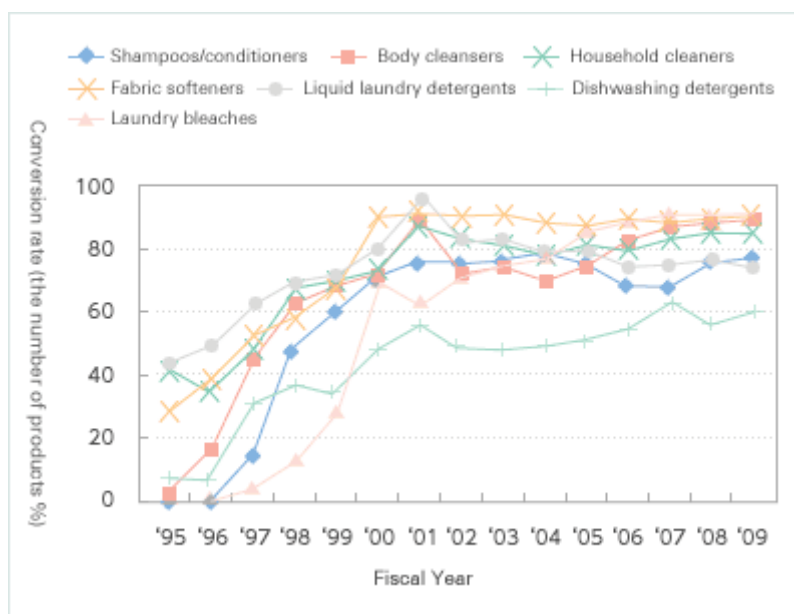
Refill the bottle and reuse.



Replace the cap of the new bottle with the nozzle and reuse.

Kao rapidly increased the ratio of refill and replacement products in 1997. Currently, the ratio is roughly 80% (in terms of the number of products). For example, the refill ratio for *Humming (Concentrated Type)* is 96%. Suppose all our refill products sold in fiscal 2009 were in plastic bottles. Compared to such case, 30,000-tons of plastics would be reduced by refill products.

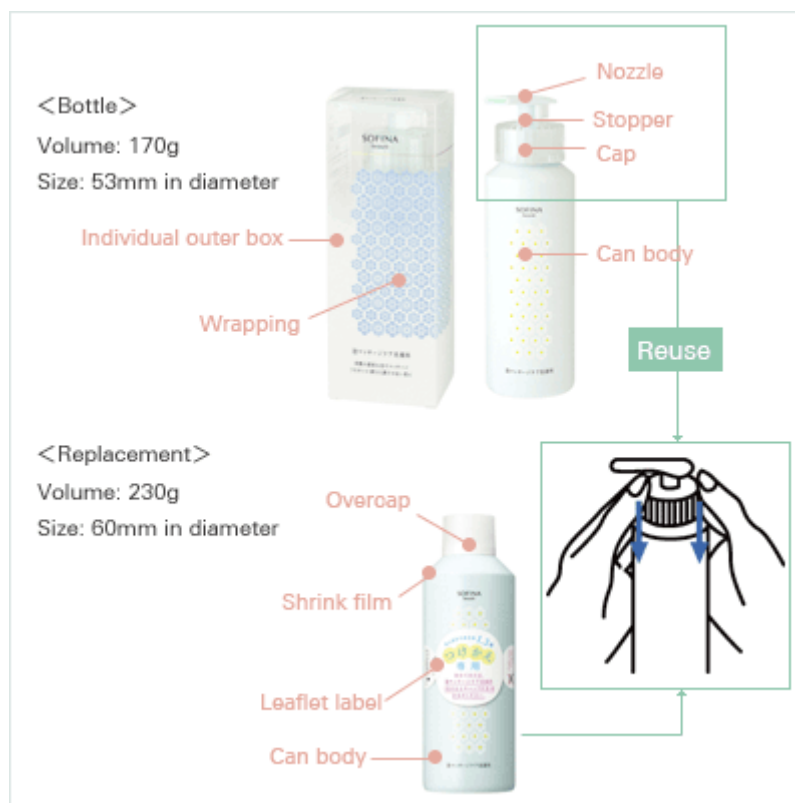
Ratio of Products Converted into Refills



Reducing CO₂ emissions by replacement containers

Kao added a replacement container for *Sofina Beaute Massage Foam Cleanser* to enable reuse of the nozzle and cap, to eliminate an individual outer box and to increase the contents volume. This resulted in a roughly 20% reduction in emissions in the use of the product.

Replacement container introduced for *Sofina Beaute Massage Foam Cleanser*



TOPICS

Kao receives 33rd Kinoshita Award and World Star 2009 for new *Curel* refill container

The new refill container developed for Kao's *Curel Shampoo and Conditioner* received the prize in the Research and Development category at the 33rd Kinoshita Award. The awards are presented by the Japan Packaging Institute each year for best packaging achievements that contribute to the advancement of packaging technology and the development of the packaging industry. The award has the longest history in the packaging industry.

Kao's award-winning refill container is manufactured in the same manner as the shampoo and conditioner bottles and offers the same environmentally friendly advantages as those of the film-type standing pack. In addition, the refill container is designed for easy opening. Even with wet hands, the unique shape of the pull-ring enables the refilling of a bottle with one hand; the container has gained high praise for its superior universal design.

In addition, the refill container was recognized for its technology at the World Star 2009 Competition, a world packaging competition sponsored by the World Packaging Organization, and won the World Star 2009.

Kao will continue to promote the application of this technology to live up to society's heightening awareness of the environment.

Appropriate Management of Chemical Substances

Enforcing integrated chemical substance management from raw materials to finished products

Kao enforces integrated management for the chemical substances it uses, adhering to the Comprehensive Management System for Chemicals. Under this system, chemicals are classified into four categories: "prohibited chemical substances," "restricted-use chemical substances," "chemical substances requiring careful handling," and "other substances."

▶ [CSR Management - Integrated Management of Chemical Substances](#)

Chemical substances management categories at Kao

Prohibited chemical substances

Chemical substances whose use in products is prohibited at Kao, in line with regulations that prohibit or require that special permission be obtained for the manufacture and/or use of such substances (PCB, asbestos, etc.)

Restricted-use chemical substances

Substances whose use in products is in the process of being phased-out (ozone-depleting substances, specified heavy metals, etc.)

Chemical substances requiring careful handling

Substances to be treated with caution according to the particular risks present (chemical substances subject to the PRTR Law, poisonous and deleterious substances, etc.)

Other substances

Substances other than those defined above

Reducing emissions of chemical substances subject to the PRTR Law

In fiscal 2009, Kao handled 53 chemical substances under the PRTR Law. Kao set a target of "maintaining emissions of each chemical substance from respective plants at 1 ton or less," which it achieved. The total discharge of substances subject to the PRTR law into air and public water was 2 tons. Kao re-examined the system to enable it to issue new MSDS that conforms to the revised PRTR Law in fiscal 2009. Kao modified its system for managing chemical substances subject to the PRTR Law ("Kanchian" System) to identify amount of release and transfer of the chemicals subject to the new PRTR Law.

▶ [List of Emissions of Substances Subject to PRTR Law](#)

Managing VOC emissions based on voluntary activity goals

Kao has no facilities subject to the VOC emission regulations provided by the Air Pollution Control Law. However, we set independent, voluntary activity goals for each fiscal year to cut VOC emissions.

In fiscal 2009, Kao surveyed the 100 VOC substances defined in the Notice of Director General of the Environmental Management Bureau, Ministry of the Environment. The total discharge into the air was 15 tons, meaning Kao achieved the target of "maintaining emissions of each substance from respective plants at 3 tons or less."

In fiscal 2010, Kao will reduce VOC emissions through controlling VOC consumption and VOC removal. We aim to reduce the annual emissions of each substance discharged from respective plants to 1 ton or less.

Proper storage and disposal of PCB

Equipment containing polychlorinated biphenyl (PCB) previously used by Kao is currently stored securely at its Wakayama, Tokyo and Kawasaki plants. We started to dispose of the equipment at the Japan Environmental Safety Corporation as of the second half of fiscal 2009. Condensers with high contents of PCB stored at Wakayama Plant are being disposed, and thus far disposal has been completed for 20% of the condensers in terms of the number of units, and 10% in terms of weight. We will continue disposing equipment containing PCB in fiscal 2010, with completion slated for fiscal 2011.

Meanwhile, it has not been determined when fluorescent lamp stabilizers and condensers containing low content of PCB will be disposed.

GHS-compliant MSDS and product labels developed

Since December 2006, Kao has provided customers with a GHS-compliant MSDS for each chemical product containing substances stipulated by the revised Industrial Safety and Health Act of 2006, and at the same time, it has changed product labels to make them GHS-compliant. In addition, for chemical products that do not fall under the Act, Kao has promoted step-by-step introduction of GHS-compliant MSDS and product labels.

On October 1, 2009, Kao started to provide MSDS that conforms to the revised Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof* that became effective the same day.

As a global operator, Kao has established a multilingual GHS-compliant MSDS creation and management system, under which data can be viewed or printed through the Internet at any distribution facility.

* Revised Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof
The Act provides a framework to collect, compile, and make public data concerning a variety of hazardous chemical substances, including information on where the chemicals were generated, what volume of chemicals were released into the environment and the volume of chemicals contained in waste at production facilities. The Act was enacted in 1999. With the review of designated substances, the revised Act took effect in October 2009.

Promoting Yellow Cards

When transporting chemicals by tank truck, we provide the transport company with documents that describe the necessary emergency response and require drivers to carry Yellow Cards* containing information on the chemicals being transported. For the transport of less than one container load of several chemicals, Container Yellow Cards that indicate emergency information are attached to the container.

* Yellow Card

A Yellow Card provides toxicity information, emergency measures, parties to contact in case of an accident and other information on the subject chemical substance. It is intended to facilitate the rapid circulation of information on environment, safety, health, and handling precautions to third parties, thereby preventing secondary disaster in the event of an accident during transportation.

イエローカード I		KAO	
品 名	別紙送り状に記載	製造番号 2795	積封番号 162
主な性状 法様	消防法 【危険物第4類第3石油類】 労働安全衛生法 【腐食性物質】		
性 質	引火性液体【引火点 70~200℃未満】・高沸点性・腐食性		
事故発生時の応急処置 ① 車を安全な場所に移動する。入車や入泊を避け、できるだけ交通の障害にならない場所に移動し、エンジンを停止してタイヤ止めをする。 ② 事故の発生を大声で告げて、消防署及び警察等に通報し、人を風上に避難させる。 ③ 火災発生。エンジンやその他の燃焼は着火源となるので燃焼物から遠ざける。 ④ 防護具を脱出し、濡れ止め・脱衣又は洗眼を行う。 ⑤ 燃焼物の漏れを土砂などで隠し、河川や下水道などへの流入を防ぐ。			
緊急通報 消防署 119 ・ 警察署 110 1. 車の名称は ○○製造会社 ○○です。 2. い つ ○○時○○分頃 3. どこで ○○市○○地区（区・県・市）道○○号線 ○○付近 4. なにが 危険物第4類第3石油類で腐食性の液体が 5. どうした 漏れています。又は 漏れて火災になっています。 6. ケガ人は ケガ人がいます（救急車をお願いします） 又は ケガ人はいません。			
緊急連絡			
製造会社	花王株式会社	製造会社	○○○○製造（株）
住 所	東京都品川区山手154	住 所	○○市○○区 ○○○○○○○番地
電話番号	【平日・夜間・休日】 03-422-8181（代番）	電話番号	【平日】 00-0000-0000 【夜間・休日】 00-0000-0000

An example of Yellow Card

Promoting green procurement

In fiscal 2009, Kao requested suppliers, whose plants failed to meet Kao's standards in the previous year's investigation, to establish an environmental management system or to operate their existing system more effectively. As a result, the percentage of plants that met our green procurement standards improved from 96% to 98%. We will continue to ask our suppliers to make ongoing improvements.

▶ Responsibilities to Stakeholders - Responsibilities to Suppliers - CSR Procurement

Optimum Management of Waste Materials

Promoting efforts toward zero emission

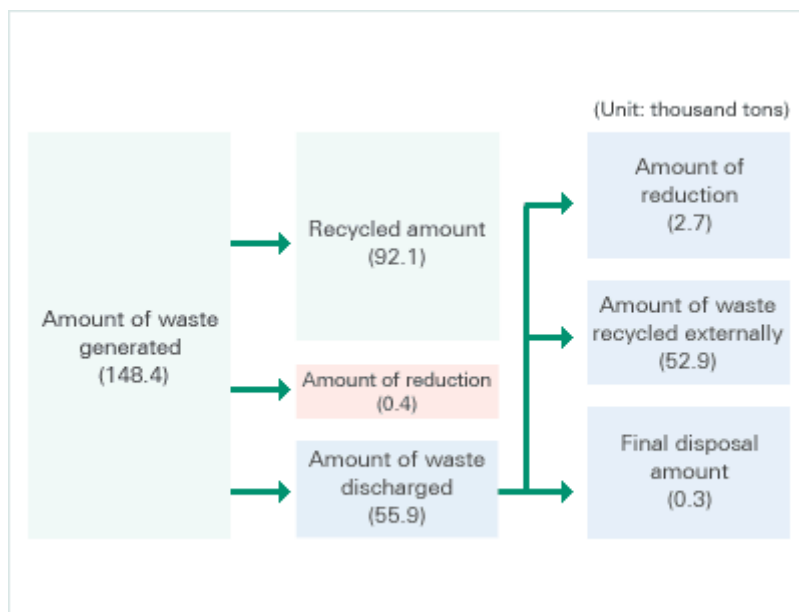
Kao's policy on waste places importance on the 3Rs in the order of reduce, reuse and recycle, and we make all efforts to reduce the generation of waste by promoting waste reduction projects. In case waste is disposed, the reuse and recycling of waste materials is sought to reduce final waste disposal to close to zero.

In fiscal 2008, we tightened the zero emission definition to "final disposal rate (final disposal amount/waste generation times 100) being at 0.2% or less." In fiscal 2009, we undertook recycling using sludge for cement and using burnt residue as a roadbed material, thereby reinforcing our efforts toward achieving zero emission. As a result, all of Kao's 10 plants in Japan maintained zero emission and achieved its targets, with the final disposal amount of 65 tons and the final disposal rate at 0.05%. We, therefore, achieved our targets for 2010, ahead of schedule, to reduce the final disposal volume to 150 tons or less and the final disposal rate to 0.1% or less.

Waste generation per unit of production output (amount of waste generated per total production) stood at 98.1% of the previous year's level, and thus we were able to reduce the level below the 99.5% or less target level.

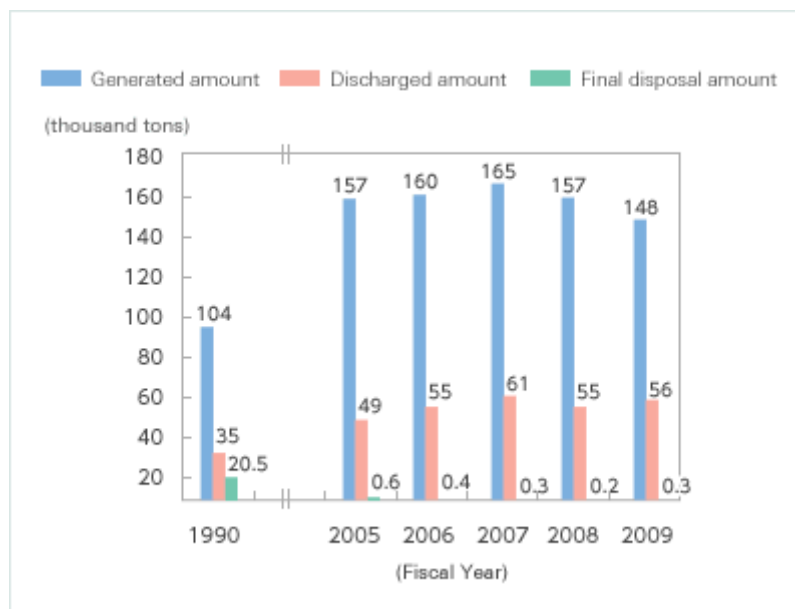
Also, at non-production sites, we try to reduce final waste disposal by tightening up the separation of different waste, reviewing waste-disposal companies we contract to, and re-examining materials for product packaging through company-wide efforts. We will continue our efforts toward zero emission.

Amount of Waste Generated and Treatment Flow (Fiscal Year 2009)



- * Amount of waste generated
Undesirable substances and defective products generated during the production stage (including valuable resources such as used paper and metals, and items that can be used at other plants)
- * Recycled amount
Waste that is reused or recycled at plants (including thermal recycling)
- * Amount of reduction
Amount of waste reduced by dehydration, concentration, shredding and incineration
- * Amount of waste discharged
Undesirable substances and defective products, incinerated ash, used paper and metals that are removed from plants
- * Amount of waste recycled externally
Waste that is recyclable or becomes usable as a resource after treatment (including thermal recycling)
- * Final disposal amount
Waste that cannot be used in any way and is safely buried in landfill sites

Changes in Waste Amounts



* Since fiscal 2006, Kanebo Cosmetics Inc. has been included.

* Data for offices and other non-production sites are added.

Promoting a variety of efforts toward waste reduction

Kao is reducing waste generation by promoting the reduction of the amount of water used to clean tanks, and the reduction of waste liquid by optimizing mixing tank sizes and formulating more detailed production plans.

In addition, Tochigi Plant and Kao's affiliated company Ehime Sanitary Products have replaced cardboard packaging with returnable containers and are reusing full-sized paper cores repeatedly. Unnecessary materials unavoidably generated are treated inside plants or outsourced to outside contractors to ensure effective use of resources.

Introducing a Waste and Recycling Governance System

Since the revision of Waste Management and Public Cleansing Law, and considering the mounting importance of governance with regard to waste disposal and recycling, Kao has developed and operates its Waste and Recycling Governance System for integrated management of contracts with business partners (waste-disposal companies), operation of control for industrial waste, numerical data and results of proper disposal inspections.

In fiscal 2009, Kao introduced the system at Kanebo Cosmetics' Odawara Plant and in the Osaka Office. We also unified the format of proper disposal survey slips used for on-site disposal status inspection within the Group, so that we can survey disposal status based on unified inspection items and evaluation ranks.

Effective Utilization of Water Resources and Wastewater Control

Effective utilization of water resources

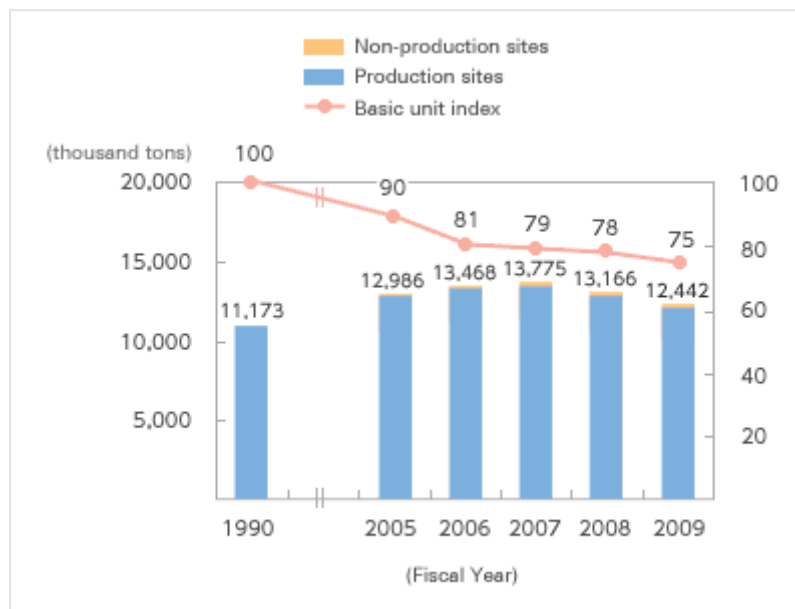
Each of Kao's plants uses water as a product ingredient, as well as to clean and cool equipment. We promote effective use of water resources at some plants by recycling water that has been used for cleaning. Sumida Complex also collects rainwater and uses it to water green spaces.

Amount of water consumption and the wastewater in fiscal 2009 decreased by 724,000 tons and 565,000 tons, respectively. These reductions were largely attributed to an improvement of production conditions at Niko Seishi Co., Ltd.



Green space at Sumida Complex where rainwater is used for watering

Changes in Water Consumed



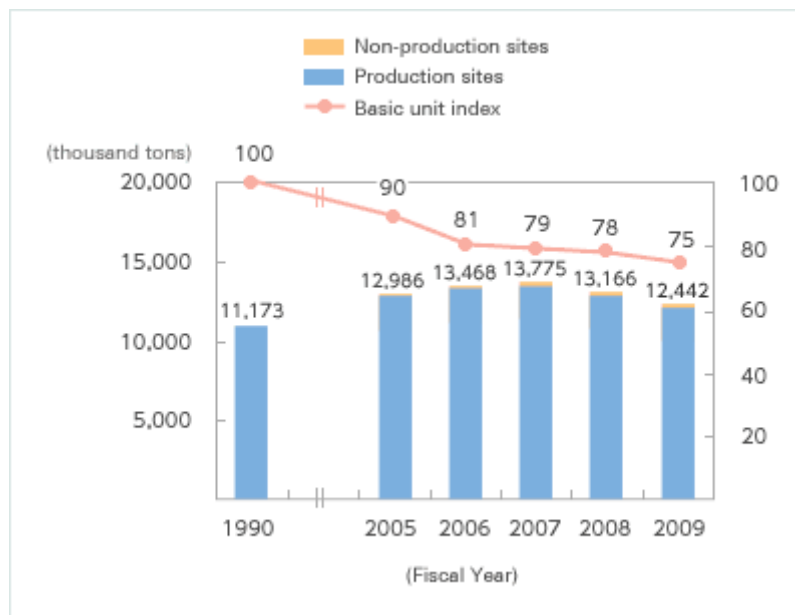
- * Since fiscal 2006, Kanebo Cosmetics Inc. has been included
- * Data for offices that do not engage in production activities are included in non-production site data.
- * For values in the basic unit index, production site data is used for calculation to ensure data continuity from past years.

Measures to deal with unintentional non-compliance with wastewater standards

In October 2009, at Kawasaki Plant, waste liquid leaked from a waste liquid extraction pump and was discharged into the wastewater system. As a result, the COD value in the wastewater slightly exceeded the regulatory standard value. Kao immediately reported the incident to the relevant administrative authorities, improved the facilities, and reinforced the wastewater control system to prevent any future recurrence.

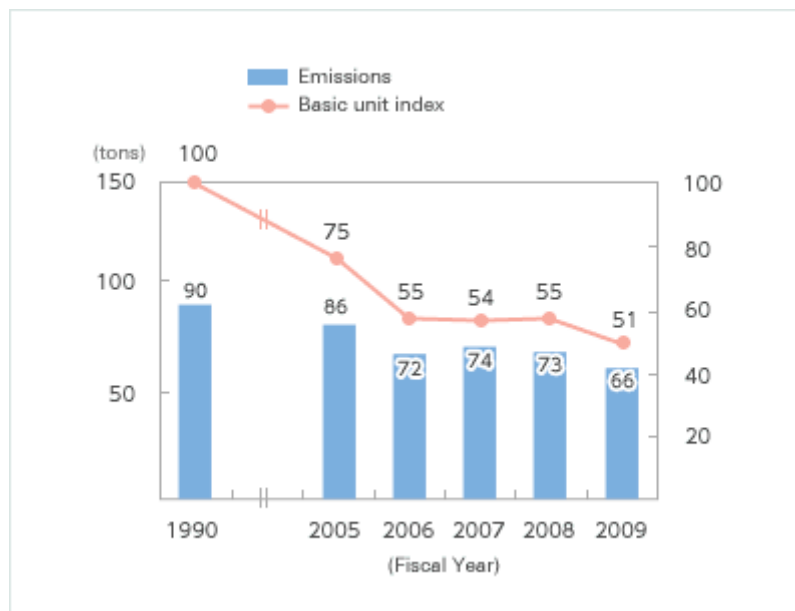
Wastewater management

Changes in Wastewater Amount



- * Since fiscal 2006, Kanebo Cosmetics Inc. has been included
- * Data for offices that do not engage in production activities are included in non-production site data.
- * For values in the basic unit index, production site data is used for calculation to ensure data continuity from past years.

Changes in COD Emissions (Production Sites)



- * Since fiscal 2006, Kanebo Cosmetics Inc. has been included

Environmental impact of discharged wastewater after product use

Domestic wastewater discharged after the use of laundry detergent and other consumer products is decomposed either at wastewater treatment facilities or by micro-organisms in rivers, before being returned to the natural system of rivers, lakes, oceans, etc.

Given this, Kao has defined its basic policy for environmentally conscious design as “promoting the lowering of environmental impacts throughout the entire life cycle of products.” Based on this policy, we endeavor to use raw materials that are easily biodegraded by micro-organisms and have less impact on the ecological system.

At the same time, Kao pays attention to identifying actual impacts of products after consumers' use on the natural environment such as rivers. Kao is also taking part in environmental monitoring surveys on surfactants conducted by the Environmental Safety Technical Subcommittee of the Japan Soap and Detergent Association (JSDA). Specifically, we measure concentrations of the four surfactants, such as LAS contained in products and are regulated by the PRTR Law, in four major rivers flowing in urban areas four times a year. We then assess the environmental risks of the surfactants on the ecological system.

The results of the surveys have revealed that risks of the surfactants to aquatic organisms are not high (according to the Fiscal Year 2009 Environmental Year Book Vol. 34, JSDA).

Measures for Biodiversity

Aiming for biodiversity conservation

Biodiversity is greatly damaged by human activities, such as overexploitation and development of biological resources, overdevelopment and various other impacts on the environment. Recently, the rate of biodiversity loss has accelerated even more. Kao uses palm and coconut oil as key materials for its products. We are fully aware that our business activities have impacts on biodiversity and depend on ecosystem services. Based on this recognition, Kao is making efforts to contribute to the conservation of biodiversity in two ways.

Firstly, we seek to reduce the impact on biodiversity through our business activities. For example, we have joined the Roundtable on Sustainable Palm Oil (RSPO) and taken part in discussion on promoting the growth and use of sustainable palm oil, with due consideration paid to the biodiversity of tropical rainforests, wildlife and other aspects. Moreover, to minimize the impact of our production plants on local ecosystems, we have established self-imposed emission standards, which are stricter than the regulatory standards, for water quality and airborne emissions from Kao's production plants. Naturally, we do not construct any plants in the vicinity of nature preserves.

The other focus of our efforts is activities to help our employees and society at large to learn about the importance of biodiversity conservation. Specifically, we provide support for Kao Earthwatch Teachers' Fellowship, organized by non-profit organization Earthwatch Japan, and implement the Kao Creating Forests for Everyone program. To promote these initiatives even further and make them more effective, we are trying to grasp the interrelationship between Kao's business activities and biodiversity, and creating unified guiding principles and actions for conservation of biodiversity activities. In parallel, we participate in the Japan Business Initiative for Conservation and Sustainable Use of Biodiversity. We conduct joint research with other companies actively engaged in programs for biodiversity to utilize the findings of the research for our policy-defining process.

- ▶ [Responsibilities to Stakeholders - For the Communities - Educational Activities - Kao Earthwatch Teachers' Fellowship](#)
- ▶ [Responsibilities to Stakeholders - For the Communities - Environmental Activities - "Kao Creating Forests for Everyone" program](#)

Sustainable sourcing of raw materials

Kao became a member of the Roundtable on Sustainable Palm Oil (RSPO) in 2007. RSPO has adopted the Principles and Criteria, which encourage compliance with applicable laws and palm oil production that is economically viable, environmentally appropriate, and socially beneficial, for the purpose of promoting production and use of sustainable palm oil. The RSPO is certifying palm oil production based on the Principles and Criteria.

Kao purchases all of its palm oil from manufacturers associated with the RSPO, including manufacturers who adopted the Criteria at the time of the RSPO's founding. In cooperation with such manufacturers, we are exploring sustainable sourcing of certified palm oil. Furthermore, we use biomass and certified materials preferentially to make an effort to procure sustainable raw materials, giving consideration to biodiversity.



Oil palm fruit bunch (A local manufacturer in transaction)

TOPICS

Planting mangroves, in cooperation with local governments

Pilipinas Kao, Incorporated (PKI) concluded agreements with local governments to implement a government-private sector joint mangrove regeneration project, marking the first ever corporate involvement. PKI signed memorandums of agreement with the Philippines' Department of the Environment and Natural Resources (DENR), Region 10 and the municipality of Jasaan, Misamis Oriental and the host districts, Luz Banson and Solana.

The mangrove planting started last February 2009 in time for the celebration of World Wetlands day.

PKI's top management and employees as well as officials of the governments involved took part in the first planting activity, putting to soil about 1,000 mangroves along the coastlines. PKI is committed to supporting biodiversity rehabilitation such as mangroves in the coastal water around PKI with the technical support of DENR.



Planting mangroves

Measures for Soil Contamination

Investigation and measurement of groundwater and soil contamination

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

In fiscal 2009, voluntary investigations were conducted at the Wakayama, Sakata and Tochigi plants, and revealed that levels of all substances were below their regulatory limit values. At Kawasaki Plant, to further grasp the current soil contamination levels within the plant premises, we voluntarily conducted the soil leaching tests prescribed by the Environmental Quality Standards for Soil Contamination. No pollution was observed in any of the test items.

Environmental Communication

Environmental and safety site reports issued by plants and affiliated companies

Since fiscal 2005, the Kao Group has issued environmental and safety site reports for affiliated companies and plants as a communication tool for obtaining the understanding of our stakeholders on the environmental conservation and safety activities of each plant and to gain feedback and insight to give direction to future activities. In fiscal 2009, Kao's eight plants in Japan produced Environmental and Safety Site Reports, which were distributed to local residents and plant tour participants. Kanebo Cosmetics also compiled Environmental Activities 2009 and made it available on its website. Kao Corporation Shanghai, which published Environmental Report in 2008, also issued Environmental Report 2009.

Environmental and safety site reports issued by plants and affiliated companies



▶ [Kanebo Cosmetics' Environmental Activities](#)

A meeting for exchange on environment, safety, and disaster prevention issues

Every year, Sumida Complex hosts a meeting at which issues relating to the environment, safety and disaster prevention are discussed. This meeting provides local residents with an opportunity to become better acquainted with the Complex's activities for environmental preservation, safety and disaster prevention and serves as a forum for the exchange of opinions.

The meeting held in March 2010 was attended by 18 representatives of six nearby neighborhood associations. Kawasaki Plant also participated in a community dialogue meeting in the Kawasaki district, organized by the Japan Responsible Care Council.

Providing environmental education

Kao dispatches its employees to schools to conduct environmental classes as a part of its endeavor to raise the ecological awareness among its consumers. In fiscal 2009, Kao's employees conducted lectures at Kanagawa Prefectural Ebina High School in November, Tokyo Metropolitan Chofu-kita High School, and Yokohama Municipal Fujinoki Junior High School in December, on the request of the organizers of Eco-Products, an environmental exhibition, and Nippon Keidanren.



Appearance of scientific experiments at a school

At these lectures, Kao's Environmental Statement and the project for *Attack Neo* were introduced. The important roles which detergents play were also explained through the use of video clips as well as hands-on experiments. The students conducted experiments to compare the suds-dissolving performance of a conventional liquid detergent and *Attack Neo* by shaking diluted solutions of both detergents. They were able to witness the superior suds-dissolving ability of *Attack Neo* and could understand the environmental significance of only requiring a single rinse cycle when doing laundry.

Students made some favorable comments such as, "I was able to understand how *Attack Neo* is good for the environment," and "I realized that we also need to make efforts in order to use detergents and shampoos in a way that is friendly to the environment." The lectures gave an opportunity for the students to understand Kao's environmental activities and to raise their awareness of the environment.

TOPICS Kao exhibits at Eco-Products 2009

Kao participated in Eco-Products 2009, one of the nation's largest environmental exhibitions, held at Tokyo Big Sight, from December 10 to 12, 2009. This was Kao's second consecutive year as an exhibitor.

The 11th Eco-Products fair focused on "More Questions about Japanese Power - the First Year of Social Power." Kao's exhibit this year was based on "eco together," the slogan of the Kao Environmental Statement announced in June 2009. Many environmentally friendly



Kao booth frequented by many visitors

products were on display, such as *Attack Neo*, a water- and energy-conserving product. Corporate citizenship activities were also introduced, such as the Kao Creating Forests for Everyone Program and the Kao Teacher's Fellowship. Kao also introduced Kao's "eco-chemical" products which support industry efforts to reduce CO₂ emissions and recycle resources. Visitors to the Kao booth offered encouraging comments such as, "The 'eco together' panels helped me understand Kao's environmental efforts."

Kao will continue to encourage dialogue with stakeholders and incorporate their feedback into future environmental activities.

TOPICS

Kao exhibits at one of Asia's largest environmental exhibitions

Kao showcased its products at the sixth Eco-products International Fair (EPIF), one of Asia's largest international environmental exhibitions, held in Indonesia's capital, Jakarta, in March 2010. At its booth, Kao introduced its efforts to reduce the impact of its products on the environment, by using Kao's consumer and industrial products sold in Indonesia, based on its theme of "eco together" with consumers/customers. " Kao also explained its water-saving technology of *Attack Neo*. Complementing this year's theme, we invited the local elementary school students to draw pictures conceptualizing "environmental conservation." The resulting artworks, displayed on columns anchoring the Kao booth, conveyed the local students' concerns for the environment.



Simulated suds-dissolving test with *Attack Neo*, demonstrating Kao's water conservation technology



Local children's artwork highlighting "environmental conservation"

Environmental Accounting

Method of Aggregation for Fiscal 2009

- (1) The aggregation methods for fiscal 2009 comply with the Japanese Ministry of the Environment's "Environmental Accounting Guidelines 2005." Kao also refers to the "Environmental Accounting Guidelines for Chemical Companies (November 2003)" issued by the Japan Chemical Industry Association.
- (2) Healthcare Committee Inc. was included into the scope of accounting in fiscal 2009. Consequently, the companies within the scope of accounting are Kao Corporation and its eight domestic subsidiaries (Kanebo Cosmetics Inc., Kao Customer Marketing Co., Ltd., Ehime Sanitary Products Company, Limited, Kao-Quaker Company, Limited, Kao Professional Service Company, Limited, Goldwell Japan Co., Ltd., Niko Seishi Co., Ltd., and Healthcare Committee Inc.).
- (3) The period of accounting is from April 1, 2009 to March 31, 2010.
- (4) The environmental impact and waste discharged from business activities cover all data of the entire Kao Group (Kao Corporation and its consolidated subsidiaries), whereas previously they represented the values from production activities.

(Categories Corresponding to Business Activities)

(Unit: million yen)

Categories		Key Activity and the Outcome	Investment	Cost ^{*1}
(1) Business Area Costs			699	3,731
Breakdown	①Pollution Prevention Cost	Air and water pollution prevention	171	1,739
	②Global Environmental Conservation	Energy conservation	257	267
	③Resource Circulation Cost	Resource saving, waste treatment and disposal	271	1,725
(2) Upstream/Downstream Cost		Plant and equipment for environmentally friendly products, containers, and packaging recycling	1,072	1,279
(3) Administration Cost		Acquisition and maintenance of ISO certification, environmental publicity, tree planting within work sites	12	983
(4) R&D Cost		Environmentally friendly R&D	2,312	2,330
(5) Social Activity Cost		Natural environmental conservation and tree planting activities outside work sites, donations	0	621
(6) Environmental Remediation Cost			-	0
Total			4,095	8,944

^{*1} Expense amounts include depreciation costs.

Environmental Conservation Benefits (Physical Quantity Benefits)

Categories	Environmental Performance Indicators (units)	Fiscal Year 2008	Fiscal Year 2009	Change ^{*2}
Related to Resource Input into Business Activities	Energy consumption of production activity (crude oil equivalent, kl)	265,050	245,776	-19,274
	Water consumed (1,000 tons)	13,166	12,442	-724
Related to Waste or Environmental Impact Originating from Business Activities	Greenhouse gas emissions (CO ₂ equivalent: 1000 tons)	518	447	-71
	SO _x emissions (tons)	27	30	3
	NO _x emissions (tons)	375	362	-13
	Wastewater amount (1,000 tons)	10,508	9,944	-564
	COD emissions (tons)	73	66	-7
	Waste discharged (1,000 tons)	55	56	1
	Final disposal amount of waste (1,000 tons)	0.2	0.3	0.1
	Emissions of chemical substances subject to PRTR Law to the air (tons)	3	1>	-2

^{*2} Greenhouse gas emissions (CO₂ equivalent) are calculated based on the Calculation and Reporting Manual on Greenhouse Gas Emissions (Ver.2.4) of March 2009 published by the Ministry of the Environment and the Ministry of Economy, Trade and Industry.

with Environmental Conservation Activities

(Unit: million yen)

Details of Benefit		Amount ^{*3}
Revenue from sales of valuable residues	Sales value of valuable resources and fixed assets	115
Cost reduction	Reduction in costs through energy conservation	307
	Reductions in cost through resource saving	1,602
	Reduction in operation costs (maintenance costs, etc., of environmentally friendly equipment)	168
Total		2,192

- ^{*3} The amount of cost reduction represents annual reductions for items generated in the year.
- * For economic effect, only the amounts from selling valuable resources and fixed assets and the amount of cost reduction are recorded. So-called "deemed effects," or economic effects based on risk evasion and other assumptions, are not recorded.
 - * The Guidelines by the Japanese Ministry of the Environment specify that the profit gained from the sale of valuable resources and fixed assets should be recorded. However, we recorded the sales values as it is difficult to calculate the profit accurately.
 - * Amounts of cost reductions are recorded only for the relevant fiscal year for the annual reduction for items generated during that year. Cost reduction amounts to be generated over multiple years are not included.

**(Categories Corresponding to Areas of Application
of Environmental Conservation Measures)**

(Unit: million yen)

Categories	Description of Measures	Investment	Cost
①Cost related to global warming measures	Energy conservation	257	257
②Cost related to ozone layer protection measures	Switch to CFC substitutes	11	31
③Cost related to air quality conservation measures	Prevention of air pollution, prevention of dust pollution, malodor prevention	17	494
④Cost related to noise and vibration measures	Noise prevention	0	8
⑤Cost related to environmental conservation measures for the aquatic, ground, and geologic environments	Prevention of water pollution	142	1,218
⑥Cost related to waste and recycling measures	Resource saving, industrial waste volume reduction, recycling	1,344	2,991
⑦Cost related to measures for reducing chemical risk and emissions	R&D on products and production	2,312	2,330
⑧Cost related to natural environmental conservation	Natural environmental conservation and tree planting activities outside plants, donations	0	621
⑨Other costs	Acquisition and maintenance of ISO certification, environmental publicity, tree planting activities within the premises of plants	12	994
Total		4,095	8,944

Trends Chart for Summary Environmental Accounting Data for the Three Most Recent Periods

	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
①Environmental Conservation Cost			
Investment (million yen)	1,608	1,328	4,095
Cost (million yen)	10,733	9,100	8,944
②Environmental Performance Indicators Concerning Environmental Conservation Benefit			
Energy consumption (crude oil equivalent, kl)	276,973	265,050	245,776
Water consumed (1,000 tons)	13,775	13,166	12,442
Greenhouse gas emissions (CO ₂ equivalent: 1,000 tons)	527	518	447
SO _x emissions (tons)	41	27	30
NO _x emissions (tons)	441	375	362
Wastewater amount (1,000 tons)	11,313	10,508	9,944
COD emissions (tons)	74	73	66
Waste discharged (1,000 tons)	61	55	56
Final disposal amount of waste (1,000 tons)	0.3	0.2	0.3
Emissions of chemical substances subject to PRTR Law to the air (tons)	3	3	1 >
③Economic Benefit Associated with Environmental Conservation Activities			
Actual benefit (million yen)	3,354	3,564	2,192

Awards in Fiscal 2009

List of awards for environmental activities

Date	Event	Company/Description	Organizer
May 2009	Environmental Technology Award of the 41st Annual JCIA Technology Award	Kao Corporation/ Runner for casting (EG Runner)	Japan Chemical Industry Association (JCIA)
May 2009	33rd Kinoshita Award in Research and Development Category	Kao Corporation/ Development of new refill container that is easy to refill based on the universal design concept	Japan Packaging Institute
Nov 2009	World Star 2009 of World Star 2009 Competition		World Packaging Organization (WPO)
Sep 2009	2009 Minhang District Award for Energy-saving Technical Modifications	Kao Chemical Corporation Shanghai/ Efforts for energy conservation	Government of Minhang District, Shanghai City, China
Nov 2009	Prime Minister's Hibiscus Award, Malaysia's national environmental prize	Fatty Chemical Kao Soap (Malaysia) Kao Oleochemical (Malaysia) Kao Plasticizer (Malaysia)/ Environmental improvement activities	Government of Malaysia
Feb 2010	Minister of Economy, Trade and Industry Award of the 9th Green Sustainable Chemistry Awards (GSC Awards)	Kao Corporation/ Practical application of a surfactant synthesis process that has low impact on the environment by using subcritical water	Green Sustainable Chemistry Network (GSCN)

Environmental Data

Data on Environmental Impacts by Production Site (Domestic)

Greenhouse gas emissions (CO₂ equivalent) are calculated based on the Calculation and Reporting Manual on Greenhouse Gas Emissions (Ver.2.4) of March 2009 published by the Ministry of the Environment and the Ministry of Economy, Trade and Industry.

Sakata Plant

2-1-18 Ohama, Sakata-shi, Yamagata 998-0064 Japan

Tel: +81-234-34-5511

Plant area: 141,000m²

Production items in Fiscal Year 2009

Pore packs, bath additives, etc.

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
Total production output	21,903	21,467	22,650	20,840	20,718
Greenhouse gas emissions (CO ₂ equivalent)	9,911	8,049	7,862	8,329	7,667
Waste generated	6,114	4,800	4,436	5,419	5,109
Waste discharged	1,455	1,246	1,574	1,894	1,545
Final disposal amount of waste	1	1>	1>	6	3
SO _x emissions	4	4	7	2	2
NO _x emissions	60	12	12	12	10
COD emissions	1>	1>	1>	1>	1>

Dioxins emissions (Fiscal Year 2009)				
Cabinet order number	Name of substance	(Unit)	Air	Public water
179	Dioxins	(mg-TEQ)	0.1>	0.1>

Tochigi Plant

2606 Akabane, Ichikai-machi, Haga-gun, Tochigi 321-3497 Japan

Tel: +81-285-68-7000

Plant area: 186,000m²

Production items in Fiscal Year 2009

Production of paper products for cleaning, sanitary napkins, baby diapers, adults' diapers, aromatic chemicals, etc.; fundamental and product development research related to the above-mentioned products

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
Total production output	62,071	64,810	65,674	63,330	67,659
Greenhouse gas emissions (CO ₂ equivalent)	48,588	44,669	41,802	46,288	37,507
Waste generated	7,962	7,680	7,527	7,833	7,607
Waste discharged	4,599	4,629	3,957	4,319	4,336
Final disposal amount of waste	2	3	1	2	1>
SO _x emissions	7	4	4	4	2
NO _x emissions	236	90	56	11	10
COD emissions	1>	1>	1	1>	1>

Dioxins emissions (Fiscal Year 2009)				
Cabinet order number	Name of substance	(Unit)	Air	Public water
179	Dioxins	(mg-TEQ)	0.1>	-

Kashima Plant

20 Higashi-Fukashiba, Kamisu-shi, Ibaraki 314-0103 Japan

Tel: +81-299-93-8311

Plant area: 340,000m²

Production items in Fiscal Year 2009

Cooking oil, mayonnaise, beverage, surfactants, oleo chemicals, etc.

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
Total production output	288,662	273,447	286,544	274,447	209,896
Greenhouse gas emissions (CO ₂ equivalent)	114,181	106,363	108,039	107,944	86,393
Waste generated	35,097	36,090	32,382	29,832	30,298
Waste discharged	5,864	7,925	6,732	4,487	7,422
Final disposal amount of waste	22	12	14	5	5
SO _x emissions	20	12	16	14	19
NO _x emissions	64	67	72	58	50
COD emissions*	10	8	9	7	4

Dioxins emissions (Fiscal Year 2009)				
Ordinance number	Name of substance	(Unit)	Air	Public water
There are no facilities subject to the Law Concerning Special Measures against Dioxins.				

* Because wastewater containing COD drains to public sewage, data for COD reflects subtraction at the sewage treatment plant.

Sumida Complex

2-1-3 Bunka, Sumida-ku, Tokyo 131-8501 Japan

Tel: +81-3-5630-9000

Plant area: 44,110m²

Production items in Fiscal Year 2009

Production of face wash/makeup remover, prestige cosmetics, etc.; product development research related to the above-mentioned products

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
Total production output	4,567	4,032	4,271	4,196	3,948
Greenhouse gas emissions (CO ₂ equivalent)	12,676	12,729	12,632	12,192	11,558
Waste generated	1,721	1,421	1,342	1,338	1,263
Waste discharged	1,721	1,421	1,342	1,338	1,263
Final disposal amount of waste	2	1	1 >	1 >	1 >
SO _x emissions	1 >	1 >	1 >	1 >	1 >
NO _x emissions	1 >	1 >	1 >	1 >	1 >
COD emissions*	1 >	1 >	1 >	1 >	1 >

Dioxins emissions (Fiscal Year 2009)				
Ordinance number	Name of substance	(Unit)	Air	Public water
There are no facilities subject to the Law Concerning Special Measures against Dioxins.				

* Because wastewater containing COD drains to public sewage, data for COD reflects subtraction at the sewage treatment plant.

Kawasaki Plant

1-2 Ukishima-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa 210-0862 Japan

Tel: +81-44-266-3231

Plant area: 101,000m²

Production items in Fiscal Year 2009

Laundry detergent, fabric softener, bleach, fabric deodorant, dishwashing detergent, kitchen bleach, body cleanser, shampoo/conditioner, household cleaner, etc.

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
Total production output	412,721	421,027	435,629	445,394	433,736
Greenhouse gas emissions (CO ₂ equivalent)	73,866	71,971	67,788	63,675	49,574
Waste generated	19,805	15,637	20,015	20,375	16,726
Waste discharged	3,007	2,922	3,491	3,562	3,227
Final disposal amount of waste	7	6	4	4	4
SO _x emissions	1>	1>	1>	1>	1>
NO _x emissions	20	19	17	20	13
COD emissions	2	2	2	2	2

Dioxins emissions (Fiscal Year 2009)				
Cabinet order number	Name of substance	(Unit)	Air	Public water
179	Dioxins	(mg-TEQ)	0.1>	0.1>

Toyohashi Plant

4-51 Akemi-cho, Toyohashi-shi, Aichi 441-8074 Japan

Tel: +81-532-23-2711

Plant area: 314,000m²

Production items in Fiscal Year 2009

Shampoo/conditioner, bath additives, face wash/makeup remover,
antiperspirant/deodorant, men's cosmetics, hair cosmetics, hair brush, hair dying
agent, hygiene care products, Nivea-Kao products, etc.

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
Total production output	49,902	56,246	59,244	52,100	45,635
Greenhouse gas emissions (CO ₂ equivalent)	10,422	10,637	11,111	10,389	9,531
Waste generated	3,241	4,471	4,038	2,807	2,664
Waste discharged	3,240	4,471	4,038	2,807	2,664
Final disposal amount of waste	1>	0	0	0	0
SO _x emissions	1	1	1	1>	1>
NO _x emissions	22	16	17	2	2
COD emissions	1>	1>	1>	1>	1>

Dioxins emissions (Fiscal Year 2009)				
Ordinance number	Name of substance	(Unit)	Air	Public water
There are no facilities subject to the Law Concerning Special Measures against Dioxins.				

Wakayama Plant

1334 Minato, Wakayama-shi, Wakayama 640-8580 Japan

Tel: +81-73-423-8151

Plant area: 425,000m²

Production items in Fiscal Year 2009

Production of laundry detergent, fabric softener, bleach, dishwashing detergent, kitchen bleach, body cleanser, shampoo/conditioner, soap, toothpaste, household cleaner, surfactants, oleo chemicals, etc.; fundamental and product development research related to the above-mentioned products

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
Total production output	781,465	789,800	803,899	769,319	784,904
Greenhouse gas emissions (CO ₂ equivalent)	185,340	190,890	187,610	181,119	169,603
Waste generated	59,238	62,612	62,161	58,150	55,104
Waste discharged	9,215	9,075	9,361	8,743	8,510
Final disposal amount of waste	442	248	101	78	50
SO _x emissions	10	14	12	8	6
NO _x emissions	256	248	253	261	271
COD emissions	62	52	50	46	42

Dioxins emissions (Fiscal Year 2009)				
Cabinet order number	Name of substance	(Unit)	Air	Public water
179	Dioxins	(mg-TEQ)	49.2	1.5

Ehime Sanitary Products Co., Ltd.

6-3 Hiuchi, Saijo-shi, Ehime 793-0003 Japan

Tel: +81-897-55-1888

Plant area: 47,800m²

Production items in Fiscal Year 2009

Paper products for kitchen, paper products for cleaning, pet care products, sanitary napkins, baby diapers, incontinence care products, nursing-care products, etc.

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
Total production output	37,657	38,890	42,672	36,298	39,309
Greenhouse gas emissions (CO ₂ equivalent)	22,821	23,588	23,942	24,068	19,748
Waste generated	4,901	4,722	4,368	4,112	4,007
Waste discharged	1,232	1,241	1,418	1,322	1,307
Final disposal amount of waste	12	8	3	1	0
SO _x emissions	1>	1>	1>	1>	1>
NO _x emissions	4	5	3	4	2
COD emissions	-	-	-	-	-

Dioxins emissions (Fiscal Year 2009)				
Cabinet order number	Name of substance	(Unit)	Air	Public water
179	Dioxins	(mg-TEQ)	0.3	-

Kanebo Cosmetics Co. Odawara Plant

5-3-28 Kotobuki-cho, Odawara-shi, Kanagawa 250-0002 Japan

Tel: +81-465-34-6111

Plant area: 60,507m²

Production items in Fiscal Year 2009

Production of skin-care/make-up prestige cosmetics, shampoo/conditioner and other toiletry products; product development research related to the above-mentioned products

Classification	Fiscal Year (Unit: tons)			
	2006	2007	2008	2009
Total production output	15,670	13,909	12,657	12,709
Greenhouse gas emissions (CO ₂ equivalent)	4,496	4,430	5,090	4,022
Waste generated*	1,196	1,232	1,311	1,232
Waste discharged*	1,196	1,232	1,311	1,232
Final disposal amount of waste	4	4	4	2
SO _x emissions	1>	1>	1>	1>
NO _x emissions	1>	1>	1>	1>
COD emissions	1>	1>	1>	2

Dioxins emissions (Fiscal Year 2009)				
Ordinance number	Name of substance	(Unit)	Air	Public water
There are no facilities subject to the Law Concerning Special Measures against Dioxins.				

* Amounts of sludge have been corrected to represent the amount of sludge after draining, retrospectively to fiscal 2006.

Niko Seishi Co., Ltd.

2329 Minami-Matsuno, Fuji-shi, Shizuoka 421-3303 Japan

Tel: +81-545-85-2630

Plant area: 9,062m²

Production items in Fiscal Year 2009

Paper products raw materials

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
Total production output	4,762	5,182	5,507	4,560	4,317
Greenhouse gas emissions (CO ₂ equivalent)	10,939	11,659	12,420	9,516	8,565
Waste generated	730	710	693	535	559
Waste discharged	730	710	693	535	559
Final disposal amount of waste	2	2	2	0	0
SO _x emissions	1>	1>	1>	1>	1>
NO _x emissions	9	9	9	7	4
COD emissions	9	8	10	16	14

Dioxins emissions (Fiscal Year 2009)				
Ordinance number	Name of substance	(Unit)	Air	Public water
There are no facilities subject to the Law Concerning Special Measures against Dioxins.				

Data on Environmental Impacts by Production Site (Overseas)

- CO₂ emissions represent the sum of the emissions from energy consumption and those from production process.
- Utility power conversion factor in 2007 was changed in accordance with the announcement of IEA data in 2007.

Kao Corporation Shanghai

Location: Shanghai, China

Production items: face wash, shampoo, detergent, sanitary napkins, etc.

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	15,000	15,200	14,300	15,200	11,900
Waste discharged	496	477	618	540	398
Final disposal amount of waste	153	143	97	99	75
SO _x emissions	1>	1>	1>	1>	1>
NO _x emissions	3	3	3	3	2
COD emissions	2	2	2	2	2
BOD emissions	1>	1>	1>	1>	1>

* Wastewater undergoes secondary treatment at community wastewater treatment facilities after primary treatment at the plant.

Kao Chemical Corporation Shanghai

Location: Shanghai, China

Production items: various industrial surfactants

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	13,900	14,400	14,900	12,400	11,600
Waste discharged	1,985* ¹	1,832* ¹	1,585* ¹	2,097* ¹	2,313
Final disposal amount of waste	1,138	445	189	0	0
SO _x emissions	1>	1>	1* ¹	2	1>
NO _x emissions	1	1	1	3* ¹	2
COD emissions	1>	1	1	1>	1>
BOD emissions	1>	1>	1>	1	1>

*¹ Figures have been changed upon the revision of past data.

Kao (Taiwan) Corporation

Location: Hsinchu, Taiwan

Production items: face wash, shampoo, detergent, sanitary napkins, industrial chemical products

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	21,000	21,800	21,200	22,900	23,000
Waste discharged	583	611	621	640	633
Final disposal amount of waste	190	182	150	158	153
SO _x emissions	4	3	4	3	1
NO _x emissions	5	9	6	11	28
COD emissions	5	4	5	4	3
BOD emissions	-	-	-	-	-

Pilipinas Kao, Inc.

Location: Cagayan de Oro, Philippines

Production items: coconut oil-based industrial chemicals and derivatives

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	69,300	73,100	99,100	90,600	93,200
Waste discharged	389	2,485	745	343	2,342
Final disposal amount of waste	0	0	0	0	104
SO _x emissions	48	47	51	37	39
NO _x emissions	-	-	-	-	-
COD emissions	12	12	13	10	7
BOD emissions	8	8	9	7	5

Kao Industrial (Thailand) Co., Ltd.

Location: Amata, Thailand

Production items: face wash, shampoo, detergent, sanitary napkins, industrial chemical products

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	32,500	29,500	30,400	30,800	29,000
Waste discharged	5,155	3,782	3,521	3,224	2,954
Final disposal amount of waste	2,287	1,002	1,122	669	473
SO _x emissions	66	8	6	11	6
NO _x emissions	25	2	11	4	16
COD emissions	22	70	88	60	67
BOD emissions	1>	4	7	4	6

* Wastewater undergoes secondary treatment at wastewater treatment facilities in the industrial park after primary treatment at the plant

Kao Vietnam Co., Ltd.

Location: Bien Hoa, Vietnam

Production items: face wash, shampoo, detergent, sanitary napkins

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	1,300	1,100	1,100	1,600	1,500
Waste discharged	171	148	148	235	228
Final disposal amount of waste	0	0	0	0	0
SO _x emissions	1>	1>	1>	1>	1
NO _x emissions	1>	1>	1>	1>	1
COD emissions	2	1>	1>	2	1>
BOD emissions	0	0	0	1	1>

Fatty Chemical (Malaysia) Sdn. Bhd. And three other firms

Location: Penang, Malaysia

Production items: palm kernel oil-based industrial chemicals, soaps, wax for synthetic resin, and plasticizers

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	146,100	142,600* ¹	151,400* ¹	151,500* ¹	152,200
Waste discharged	4,897	5,387	4,988	4,787* ²	4,171
Final disposal amount of waste	4,837	5,039	4,801	4,411	3,841
SO _x emissions	1>	1>	1>	1>	1>
NO _x emissions	104	117	127	137	142
COD emissions	20	18	16	12	13
BOD emissions	1	1	1	1	1>

*¹ Figure has been changed upon the revision of natural gas heat quantity.*² Figure has been changed upon the revision of previous data.**P.T. Kao Indonesia**

Location: Cikarang, Indonesia

Production items: face wash, shampoo, detergent, sanitary napkins

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	17,500	15,800	14,800	14,100	15,100
Waste discharged	717	740	886	975	1,189
Final disposal amount of waste	0	0	0	5	8
SO _x emissions	5	5	5	1>	1>
NO _x emissions	-	-	-	-	-
COD emissions	1>	2	2	1>	1>
BOD emissions	1>	1>	1>	1>	1>

P.T. Kao Indonesia Chemicals

Location: Tambun, Indonesia

Production items: various industrial surfactants

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	20,500	19,100	20,900	19,300	20,100
Waste discharged	555	826	1,757	1,585	1,946
Final disposal amount of waste	258	309	156	352	801
SO _x emissions	20	17	13	1>	1>
NO _x emissions	1>	1>	1>	1>	1>
COD emissions	8	8	10	9	9
BOD emissions	5	5	6	5	5

Kao Brands Company

Location: Cincinnati, U.S.A.

Production items: skin and hair care products

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	25,900	24,900	25,300	23,700	23,300
Waste discharged	2,073	2,232	2,798	3,425	3,042
Final disposal amount of waste	887	961	1,324	1,954	1,253
SO _x emissions	95	101	101	92	97
NO _x emissions	35	35	36	32	32
COD emissions	-	-	-	-	-
BOD emissions	245	191	242	267	213

* Wastewater undergoes secondary treatment at wastewater treatment facilities of the community after primary treatment at the plant.

Kao Specialties Americas LLC

Location: High Point, U.S.A.

Production items: fatty derivatives

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	21,700	23,900	26,500	26,500	21,800
Waste discharged	1,012	741	882	862	520
Final disposal amount of waste	1,009	727	723	718	520
SO _x emissions	1	0	0	0	0
NO _x emissions	11* ¹	10* ¹	11	12	10
COD emissions	681	463	560	417	244
BOD emissions	63	81	75	65	37

*¹ Figure has been changed upon the revision of previous data.

* Wastewater undergoes secondary treatment at wastewater treatment facilities of the community after primary treatment at the plant.

Quimi-Kao, S.A. de C.V.

Location: Guadalajara, Mexico

Production items: fatty derivatives

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	15,000	16,000	16,000	17,000	17,200
Waste discharged	350	570	747	1,257* ¹	866
Final disposal amount of waste	0	0	0	73	333
SO _x emissions	12	2	2	2	2
NO _x emissions	6	5	5	5	5
COD emissions	7	17	18	9	10
BOD emissions	4	11	12	6	7

*¹ Figure has been changed upon the revision of previous data.

Kao Chemicals GmbH

Location: Emmerich, Germany

Production items: fatty derivatives

Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	19,500	21,300	21,300	21,000	19,900
Waste discharged	2,017	1,249	1,955	1,797	2,222
Final disposal amount of waste	0	0	0	0	0
SO _x emissions	2	1	0	0	1>
NO _x emissions	1	1	0	0	1>
COD emissions	595	595	524	495	451
BOD emissions	-	-	-	-	-

* Wastewater undergoes secondary treatment at wastewater treatment facilities of the community after primary treatment at the plant.

Kao Corporation S.A.

Location: Barcelona, Spain





Production items: fatty derivatives




Classification	Fiscal Year (Unit: tons)				
	2005	2006	2007	2008	2009
CO ₂ emissions	49,200	48,000	45,900	44,600	36,900
Waste discharged	11,520	10,112	11,037	9,882	6,697
Final disposal amount of waste	1,670	1,336	2,029	1,466	1,324
SO _x emissions	-	-	-	-	-
NO _x emissions	184	183	176	173	152
COD emissions	240	344	416	298	138
BOD emissions	84	121	139	99	46

* Wastewater undergoes secondary treatment at wastewater treatment facilities of the community after primary treatment at the plant.

List of Refill and Replacement Products

As of March 31, 2010

Details of measures	Corresponding products (examples)
<p>· Can be refilled quickly without liquid leaking, even in large volumes</p> <p>Side spout type with press line</p> 	<ul style="list-style-type: none"> · Humming (Concentrated Type) · Humming Flair · Style Fit Fabric Softener · Wide Haier EX Power · Wide Haier · Emal · Keeping for Washing Machine · Family Fresh
<p>Embossed type</p> 	<ul style="list-style-type: none"> · Attack Neo · Attack Highly Active Bio EX Gel · New Beads Gel with Fabric Softener · Style Fit liquid laundry detergent
<p>· Easy to pour into a small bottle mouth</p> <p>Straw type</p> 	<ul style="list-style-type: none"> · Attack Spray Foam · Attack Point Cleansing · Quikle Living Room Cleaner · Quikle House Dust Removing Spray · Family Fresh Compact · CuCute Powder-Gel for Dishwasher · Kitchen Magiclean with Deodorizer · Success Medicated Shampoo · Biore u Bath Milk · Curel Medicated Body Wash · Curel Medicated Bath Additives
<p>Insert type with side hooks</p> 	<ul style="list-style-type: none"> · Bath Magiclean Foam Spray · Toilet Magiclean Deodorant and Cleaning Spray · Magiclean Glass Cleaner · Mypet Handy Spray · Resesh · Style Care Smoother for Ironing · Keeping for Ironing

<p>· Easy to insert into bottle mouth, and even thick liquids can be squeezed out into a bottle</p> <p>Depress embossed type (for liquid with very high viscosity)</p> 	<ul style="list-style-type: none"> · <i>Asience Shampoo/Conditioner</i> · <i>Essential Damage Care Shampoo/Conditioner</i> · <i>Segreta Shampoo/Conditioner</i> · <i>Merit Shampoo/Conditioner</i> · <i>Biore u</i>
<p>· Powder does not scatter when refilling</p> <p>Plug-in type (for powder)</p> 	<ul style="list-style-type: none"> · <i>Wide Haiter Powder Type</i> · <i>Wide Magiclean</i> · <i>CuCute with Citric Acid for Dishwashers</i> · <i>Family Pure for Dishwasher</i>
<p>· Does not wobble. Stable while pouring into a container.</p> <p>Bottle type</p> 	<ul style="list-style-type: none"> · <i>Curel Medicated Shampoo/Conditioner</i>

List of Emissions of Substances Subject to PRTR Law

Reduction of emissions of chemical substances subject to PRTR Law

Emissions of substances subject to PRTR Law (Fiscal Year 2009) (Substances whose annual use levels in each plant were over 1 ton)

(ton/year)

Cabinet Order No.	Name of Substance	Amount of emissions to atmosphere	Amount of emissions to public waters
001	Water-soluble zinc compounds	0.0	0.0
003	Acrylic acid	0.0	0.0
004	Ethyl acrylate	0.0	0.0
006	Methyl acrylate	0.0	0.0
007	Acrylonitrile	0.0	0.0
016	2-Aminoethanol	0.0	0.0
017	N-(2-Aminoethyl)-1,2-ethanediamine; diethylenetriamine	0.0	0.0
021	m-Aminophenol	0.0	0.0
023	1-Allyloxy-2,3-epoxypropane	0.0	0.0
024	n-Alkylbenzenesulfonic acid and its salts (alkyl C = 10-14)	0.0	0.1
029	4,4'-Isopropylidendiphenol; bisphenol A	0.0	0.0
040	Ethylbenzene	0.0	0.0
042	Ethylene oxide	0.1	0.0
043	Ethylene glycol	0.0	0.0
046	Ethylenediamine	0.0	0.0
054	Epichlorohydrin	0.0	0.0
056	1,2-Epoxypropane; propylene oxide	0.5	0.0
058	1-Octanol	0.0	0.0
063	Xylene	0.0	0.0
065	Glyoxal	0.0	0.0
068	Chromium and chromium (III) compounds	0.0	0.0
080	Chloroacetic acid	0.0	0.0
095	Chloroform	0.1	0.0
096	Chloromethane; methyl chloride	0.3	0.0
102	Vinyl acetate	0.0	0.0
145	Dichloromethane; methylene dichloride	0.9	0.0
166	N,N-Dimethyldodecylamine N-oxide	0.0	0.0
176	Organic tin compounds	0.0	0.0

177	Styrene	0.1	0.0
205	Terephthalic acid	0.0	0.0
207	Copper salts (water-soluble except complex salts)	0.0	0.0
224	1,3,5-Trimethylbenzene	0.0	0.0
227	Toluene	0.2	0.0
231	Nickel	0.0	0.0
232	Nickel compounds	0.0	0.0
251	Bis-(hydrogenated tallow)-dimethylammonium chloride	0.0	0.0
254	Hydroquinone	0.0	0.0
263	o-Phenylenediamine	0.0	0.0
266	Phenol	0.0	0.0
269	di-n-Octyl phthalate	0.0	0.0
273	n-Butyl benzyl phthalate	0.0	0.0
283	Hydrogen fluoride and its water-soluble salts	0.0	0.0
292	Hexamethylenediamine	0.0	0.0
297	Benzyl chloride	0.0	0.0
298	Benzaldehyde	0.0	0.0
300	1,2,4-Benzenetricarboxylic 1,2-anhydride	0.0	0.0
304	Boron and its compounds	0.0	0.0
307	Poly (oxyethylene) alkyl ether (alkyl C=12-15)	0.0	0.1
310	Formaldehyde	0.0	0.0
313	Maleic anhydride	0.0	0.0
314	Methacrylic acid	0.0	0.0
318	2-(Dimethylamino) ethyl methacrylate	0.0	0.0
Total		2.2	0.1

179	Dioxins (unintentionally formed substance, units: mg-TEQ/year)	49.5	1.5
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GRI Content Index

This index specifies an applicable or relevant item in the Kao Group's reports that corresponds to an indicator of the GRI 2006 Sustainability Reporting Guidelines, based on Kao's interpretation of the Guidelines.

Links provided in the table are mainly found in CSR/Sustainability Report 2010. Some links refer to related pages of the Kao website. For the following, in particular, refer to the Kao website.

- Profile of a reporting organization (2.1-2.9): [Company Profile](#)
- Governance (4.1-4.10): [Report Concerning Corporate Governance](#)
- Economic performance (EC1-EC9): [Investor Relations](#) [Business Results](#)

For the columns under UNGC, related Principles of the Global Compact are specified, drawing upon "[MAKING THE CONNECTION - The GRI Guidelines and the UNGC Communication on Progress](#)" that indicates the relevance of the GRI Guidelines and those of the United Nations Global Compact.

- ▼ 1. Strategy and Analysis
- ▼ 2. Organizational Profile
- ▼ 3. Report Parameters
- ▼ 4. Governance, Commitments, and Engagement
- ▼ 5. Management Approach and Performance Indicators

1. Strategy and Analysis			
Section	Disclosures	Links	UNGC
1.1	Statement from the most senior decision-maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy.	<ul style="list-style-type: none"> ▶ Message from President & CEO Refer to Kao Report	
1.2	Description of key impacts, risks, and opportunities.	<ul style="list-style-type: none"> ▶ Promoting Yoki-Monozukuri that positions ecology at the core of management ▶ From CSR to Sustainability ▶ Organization to achieve sustainability ▶ Aiming to achieve the Medium-term Objectives stipulated in the Environmental Statement 	

2. Organizational Profile			
Section	Disclosures	Links	UNGC
2.1	Name of the organization.	Company Outline  Refer to Company Profile	
2.2	Primary brands, products, and/or services.	Kao Group Fields of Business  Refer to About Kao Group	
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Company Outline  Refer to Company Profile	
2.4	Location of organization's headquarters.	Company Outline  Refer to Company Profile	
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Global Activities  Refer to About Kao Group Global Gateway  Refer to Kao Worldwide	
2.6	Nature of ownership and legal form.	Company Outline  Refer to Company Profile	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Business Fields  Refer to Company Profile Kao Group Overview  Refer to About Kao Group Global Gateway  Refer to Kao Worldwide	
2.8	Scale of the reporting organization, including: ·Number of employees; ·Net sales (for private sector organizations) or net revenues (for public sector organizations); ·Total capitalization broken down in terms of debt and equity (for private sector organizations); and ·Quantity of products or services provided.	Kao Group Overview  Refer to About Kao Group	
2.9	Significant changes during the reporting period regarding size, structure, or ownership including: ·The location of, or changes in operations, including facility openings, closings, and expansions; and ·Changes in the share capital	Change in the number of shares in each unit shares	


	structure and other capital formation, maintenance, and alteration operations (for private sector organizations).		
2.10	Awards received in the reporting period.	<ul style="list-style-type: none"> ▶ Kao was named as one of the “World's Most Ethical Companies” for the fourth consecutive year ▶ Kao Indonesia Chemicals received Silver Award ▶ Pilipinas Kao, Inc. received the Gold Award at the International Convention on Quality Control Circles ▶ Kao's domestic and overseas plants receive safety awards ▶ Shanghai Charity Foundation recognizes Kao (China) Holding Co., Ltd.'s efforts ▶ Global Warming Prevention ▶ Kao wins the Environmental Technology Prize at the 41st Annual JCIA Technology Award ▶ Kao receives 33rd Kinoshita Award and World Star 2009 for new Curel refill container ▶ Awards in Fiscal 2009 	

3. Report Parameters			
Section	Disclosures	Links	UNGC
Report Profile			
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	▶ Period covered	
3.2	Date of most recent previous report (if any).	▶ Issuing period	
3.3	Reporting cycle (annual, biennial, etc.)	▶ Issuing period	
3.4	Contact point for questions regarding the report or its contents.	▶ Company Outline  Refer to Company Outline	
Report Scope and Boundary			
3.5	Process for defining report content, including: ·Determining materiality; ·Prioritizing topics within the report; and ·Identifying stakeholders the organization expects to use the report.	▶ CSR Reporting Policy	
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	▶ Organizations covered	
3.7	State any specific limitations on the scope or boundary of the report.	▶ Organizations covered	
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	Not applicable	
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	▶ Organizations covered ▶ Implementing continuous RC education ▶ Promotion of Diversity and Respect for Individuals ▶ Consideration for Employees' Health and Lifestyle ▶ Occupational Safety, Process Safety and Disaster Prevention	

		<ul style="list-style-type: none"> ▶ Product Life Cycle and Environmental Impact ▶ Fiscal 2009 Results and Targets for the Future ▶ Data on Environmental Impacts by Production Site (Domestic) ▶ Data on Environmental Impacts by Production Site (Overseas) ▶ Global Warming Prevention ▶ Optimum Management of Waste Materials ▶ Effective Utilization of Water Resources and Wastewater Control ▶ Environmental Accounting 	
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	<ul style="list-style-type: none"> ▶ Occupational Safety, Process Safety and Disaster Prevention ▶ Data on Environmental Impacts by Production Site (Domestic) ▶ Data on Environmental Impacts by Production Site (Overseas) ▶ Effective Utilization of Water Resources and Wastewater Control 	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	<ul style="list-style-type: none"> ▶ Organizations covered ▶ Occupational Safety, Process Safety and Disaster Prevention ▶ Data on Environmental Impacts by Production Site (Domestic) ▶ Data on Environmental Impacts by Production Site (Overseas) ▶ Effective Utilization of Water Resources and Wastewater Control 	
GRI Content Index			
3.12	Table identifying the location of the Standard Disclosures in the report.	▶ GRI Index	

Assurance		
3.13	<p>Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organization and the assurance provider(s).</p>	<p>▶ Independent Review</p>


4. Governance, Commitments, and Engagement			
Section	Disclosures	Links	UNGC
Governance			
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	<ul style="list-style-type: none"> ▶ Organization to achieve sustainability ▶ Corporate Governance System ▶ CSR Promotion System 	Principles 1 to 10
4.2	Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organization's management and the reasons for this arrangement).	<ul style="list-style-type: none"> ▶ Efforts toward the improvement of the Corporate Governance System 	Principles 1 to 10
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	<ul style="list-style-type: none"> ▶ Efforts toward the improvement of the Corporate Governance System 	Principles 1 to 10
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	<ul style="list-style-type: none"> ▶ Continued dialogue with stakeholders ▶ Promoting Dialogue with Employees ▶ Promoting the activation of Shareholder Meetings and the facilitation of the exercising of voting rights 	Principles 1 to 10
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	<ul style="list-style-type: none"> ▶ Ensuring appropriate remuneration of the members of the Board of Directors and Executive Officers and implementation of multidimensional evaluations for members of the Board of Directors and Executive Officers 	Principles 1 to 10
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	<ul style="list-style-type: none"> ▶ Corporate Governance System 	Principles 1 to 10
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and	<ul style="list-style-type: none"> ▶ Efforts toward the improvement of the Corporate Governance System 	Principles 1 to 10

	social topics.		
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	<ul style="list-style-type: none"> ▶ Implementing Kao's Business Conduct Guidelines ▶ Summary of the basic five elements of RC activities ▶ Guidelines for Human Capital Development ▶ The Kao Way (corporate philosophy)  Refer to About Kao Group <ul style="list-style-type: none"> ▶ Kao Environmental Statement  Refer to Kao Environmental Statement	Principles 1 to 10
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	<ul style="list-style-type: none"> ▶ Organization to achieve sustainability ▶ Enhancement of Internal Control System ▶ CSR Promotion System ▶ Measures for Promoting CSR Activities 	Principles 1 to 10
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	<ul style="list-style-type: none"> ▶ Organization to achieve sustainability ▶ Corporate Governance System ▶ CSR Promotion System 	Principles 1 to 10
Commitments to External Initiatives			
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	<ul style="list-style-type: none"> ▶ Kao's ecology-centered management ▶ Risk Management System ▶ Measures towards the Enhancement of Risk Management ▶ RC promotion system ▶ Summary of the basic five elements of RC activities 	Principles 7
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	<ul style="list-style-type: none"> ▶ Participation in the Global Compact (GC) ▶ Participating in Programs on Chemical Safety ▶ Participating in the "Challenge 25 Campaign" 	Principles 1 to 10

4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: ·Has positions in governance bodies; ·Participates in projects or committees; ·Provides substantive funding beyond routine membership dues; or ·Views membership as strategic.	<ul style="list-style-type: none"> ▶ Participating in Programs on Chemical Safety ▶ Efforts toward CDP ▶ Measures for Biodiversity 	Principles 1 to 10
Stakeholder Engagement			
4.14	List of stakeholder groups engaged by the organization.	<ul style="list-style-type: none"> ▶ Continued dialogue with stakeholders ▶ Specialist Comment: Opinion from the perspective of CSR 	
4.15	Basis for identification and selection of stakeholders with whom to engage.	<ul style="list-style-type: none"> ▶ Continued dialogue with stakeholders ▶ Specialist Comment: Opinion from the perspective of CSR 	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	<ul style="list-style-type: none"> ▶ Continued dialogue with stakeholders ▶ Kao's Response to Stakeholders and Kao's efforts for the future ▶ Consumer Response System ▶ Promoting educational activities ▶ Relationships with retailers are strengthened in cooperation with Kao Group companies ▶ Cooperation with Corporate Customers and Sales Distributors (Chemical Business) ▶ Cooperation with Corporate Customers and Sales Distributors (Professional - Use Products Business) ▶ Conducting an employee opinion survey known as "Find" ▶ Promoting Dialogue with Employees ▶ Implementation of a supplier 	

		<ul style="list-style-type: none"> ▶ satisfaction survey ▶ Cooperation with Suppliers ▶ Disclosure of Information and Communication 	
4.17	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.	<ul style="list-style-type: none"> ▶ Kao's Response to Stakeholders and Kao's efforts for the future ▶ Specialist Comment: Opinion from the perspective of CSR ▶ Practicing <i>Yoki-Monozukuri</i> ▶ Conducting an employee opinion survey known as "Find" ▶ Implementation of a supplier satisfaction survey ▶ Quality improvement meetings ▶ Promoting the activation of Shareholder Meetings and the facilitation of the exercising of voting rights 	

5. Management Approach and Performance Indicators			
Section	Disclosures	Links	UNGC
Economic			
	Disclosure on Management Approach	<ul style="list-style-type: none"> ▶ Promoting <i>Yoki-Monozukuri</i> that positions ecology at the core of management ▶ From CSR to Sustainability ▶ Implementing Kao's Business Conduct Guidelines 	Principles 1, 4, 6 & 7
Economic Performance Indicators			
Aspect: Economic Performance			
Core EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	<ul style="list-style-type: none"> ▶ Business Results  Refer to Investor Relations ▶ Supporting the artistic and cultural endeavors as well as scientific and technological research 	
Core EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	▶ Promoting <i>Yoki-Monozukuri</i> that positions ecology at the core of management	Principles 7
Core EC3	Coverage of the organization's defined benefit plan obligations.	<ul style="list-style-type: none"> ▶ Business Results  Refer to Investor Relations 	
Core EC4	Significant financial assistance received from government.	-	
Aspect: Market Presence			
Add EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	-	Principles 1
Core EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	-	
Core EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	▶ Employee Data (Japan, Consolidated)	Principles 6
Aspect: Indirect Economic Impacts			

Core EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	<ul style="list-style-type: none"> ▶ Educational Activities ▶ Activities toward the Creation of Better Communities ▶ Disaster Relief Activities ▶ Corporate Citizenship Activities Overseas 	
Add EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	-	
Environmental			
	Disclosure on Management Approach	<ul style="list-style-type: none"> ▶ Promoting <i>Yoki-Monozukuri</i> that positions ecology at the core of management ▶ Implementing Kao's Business Conduct Guidelines ▶ RC promotion system ▶ Summary of the basic five elements of RC activities ▶ Aiming to achieve the Medium-term Objectives stipulated in the Environmental Statement ▶ Environmental Targets and Results ▶ Kao Environmental Statement  <p>Refer to Kao Environmental Statement</p>	Principles 7, 8 & 9
Environmental Performance Indicators			
Aspect: Materials			
Core EN1	Materials used by weight or volume.	▶ Product Life Cycle and Environmental Impact	Principles 8
Core EN2	Percentage of materials used that are recycled input materials.	▶ Product Life Cycle and Environmental Impact	Principles 8 & 9
Aspect: Energy			
Core EN3	Direct energy consumption by primary energy source.	▶ Product Life Cycle and Environmental Impact	Principles 8
Core EN4	Indirect energy consumption by primary source.	-	Principles 8
Add EN5	Energy saved due to conservation and efficiency improvements.	▶ Global Warming Prevention	Principles 8 & 9

Add EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.	<ul style="list-style-type: none"> ▶ Aiming to achieve the Medium-term Objectives stipulated in the Environmental Statement ▶ Pursuing better performance and lower environmental impact 	Principles 8 & 9
Add EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	▶ Global Warming Prevention	Principles 8 & 9
Aspect: Water			
Core EN8	Total water withdrawal by source.	<ul style="list-style-type: none"> ▶ Product Life Cycle and Environmental Impact ▶ Effective utilization of water resources 	Principles 8
Add EN9	Water sources significantly affected by withdrawal of water.	-	Principles 8
Add EN10	Percentage and total volume of water recycled and reused.	-	Principles 8 & 9
Aspect: Biodiversity			
Core EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	No applicable areas	Principles 8
Core EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	▶ Aiming for biodiversity conservation	Principles 8
Add EN13	Habitats protected or restored.	▶ Planting mangroves, in cooperation with local governments	Principles 8
Add EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	▶ Measures for Biodiversity	Principles 8
Add EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Not applicable	Principles 8
Aspect: Emissions, Effluents, and Waste			

Core EN16	Total direct and indirect greenhouse gas emissions by weight.	<ul style="list-style-type: none"> ▶ Product Life Cycle and Environmental Impact ▶ Data on Environmental Impacts by Production Site (Domestic) ▶ Data on Environmental Impacts by Production Site (Overseas) ▶ Global Warming Prevention 	Principles 8
Core EN17	Other relevant indirect greenhouse gas emissions by weight.	<ul style="list-style-type: none"> ▶ Product Life Cycle and Environmental Impact 	Principles 8
Add EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	<ul style="list-style-type: none"> ▶ Implementing programs to reduce CO₂ emissions throughout the entire product life cycle ▶ Global Warming Prevention ▶ Reducing CO₂ emissions by replacement containers 	Principles 7,8 & 9
Core EN19	Emissions of ozone-depleting substances by weight.	-	Principles 8
Core EN20	NO _x , SO _x , and other significant air emissions by type and weight.	<ul style="list-style-type: none"> ▶ Product Life Cycle and Environmental Impact ▶ Data on Environmental Impacts by Production Site (Domestic) ▶ Data on Environmental Impacts by Production Site (Overseas) ▶ Appropriate Management of Chemical Substances 	Principles 8
Core EN21	Total water discharge by quality and destination.	<ul style="list-style-type: none"> ▶ Product Life Cycle and Environmental Impact ▶ Effective Utilization of Water Resources and Wastewater Control 	Principles 8
Core EN22	Total weight of waste by type and disposal method.	<ul style="list-style-type: none"> ▶ Product Life Cycle and Environmental Impact ▶ Data on Environmental Impacts by Production Site (Domestic) ▶ Data on Environmental Impacts by Production Site (Overseas) ▶ Promoting efforts toward zero emission 	Principles 8

Core EN23	Total number and volume of significant spills.	▸ Measures to deal with unintentional non-compliance with wastewater standards	Principles 8
Add EN24	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.	-	Principles 8
Add EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	▸ Environmental impact of discharged wastewater after product use	Principles 8
Aspect: Products and Services			
Core EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	▸ Creating new environmentally friendly products to reduce water consumption ▸ Development of environmentally conscious products and packaging ▸ Actively promoting the 3Rs for containers and packaging	Principles 7, 8 & 9
Core EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	▸ Improvement of refill and replacement products	Principles 8 & 9
Aspect: Compliance			
Core EN28.	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	▸ Measures to deal with unintentional non-compliance with wastewater standards	Principles 8
Aspect: Transport			
Core EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	▸ Reduction of the environmental impact in distribution	
Aspect: Overall			

Add EN30	Total environmental protection expenditures and investments by type.	▸ Environmental Accounting	Principles 7,8 & 9
Social Performance Indicators			
Labor Practices and Decent Work			
	Disclosure on Management Approach	▸ Implementing Kao's Business Conduct Guidelines ▸ RC promotion system ▸ Summary of the basic five elements of RC activities ▸ Guidelines for Human Capital Development	Principles 1,3 & 6
Labor Practices and Decent Work Performance Indicators			
Aspect: Employment			
Core LA1	Total workforce by employment type, employment contract, and region.	▸ Promotion of Diversity and Respect for Individuals	
Core LA2	Total number and rate of employee turnover by age group, gender, and region.	-	Principles 6
Add LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	-	
Aspect: Labor/Management Relations			
Core LA4	Percentage of employees covered by collective bargaining agreements.	-	Principles 1 & 3
Core LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	-	Principles 3
Aspect: Occupational Health and Safety			
Add LA6	Percentage of total workforce represented informal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	▸ Summary of the basic five elements of RC activities	Principles 1
Core LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of	▸ Occupational accidents in 2009	Principles 1

	work-related fatalities by region.		
Core LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	<ul style="list-style-type: none"> ▶ Implementing continuous RC education ▶ Consideration for Employees' Health and Lifestyle 	Principles 1
Add LA9	Health and safety topics covered in formal agreements with trade unions.	▶ Summary of the basic five elements of RC activities	Principles 1
Aspect: Training and Education			
Core LA10	Average hours of training per year per employee by employee category.	-	
Add LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	<ul style="list-style-type: none"> ▶ Human Capital Development and Training ▶ Implementing training for evaluators in Japan and overseas ▶ Operating the Senior Partner policies for re-employing retired employees ▶ Supporting proactive future plans 	
Add LA12	Percentage of employees receiving regular performance and career development reviews.	▶ Implementing fair and objective evaluations and compensation policies	
Aspect: Diversity and Equal Opportunity			
Core LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	-	Principles 1 & 6
Core LA14	Ratio of basic salary of men to women by employee category.	-	Principles 1 & 6
Human Rights			
	Disclosure on Management Approach	▶ Implementing Kao's Business Conduct Guidelines	Principles 1,2,3, 4,5 & 6
Human Rights Performance Indicators			
Aspect: Investment and Procurement Practices			

Core HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	-	Principles 1,2,3, 4,5 & 6
Core HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	▶ Efforts to improve the rate of suppliers meeting Kao's standards	Principles 1,2,3, 4,5 & 6
Add HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	▶ Continuous promotion of Equal Partnership	Principles 1,2,3, 4,5 & 6
Aspect: Non-discrimination			
Core HR4	Total number of incidents of discrimination and actions taken.	-	Principles 1,2 & 6
Aspect: Freedom of Association and Collective Bargaining			
Core HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	-	Principles 1,2 & 3
Aspect: Child Labor			
Core HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	▶ Participation in the Global Compact (GC)	Principles 1,2 & 5
Aspect: Forced and Compulsory Labor			
Core HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.	-	Principles 1,2 & 4
Aspect: Security Practices			
Add HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	-	Principles 1 & 2

Aspect: Indigenous Rights			
Add HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Not applicable	Principles 1 & 2
Society			
	Disclosure on Management Approach	▶ Implementing Kao's Business Conduct Guidelines	Principles 10
Society Performance Indicators			
Aspect: Community			
Core SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	-	
Aspect: Corruption			
Core SO2	Percentage and total number of business units analyzed for risks related to corruption.	▶ Implementing compliance audits and monitoring	Principles 10
Core SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	▶ Sharing and utilizing various internal rules and guidelines on the intranet ▶ Progress of Integrity Workshop at Kao Group companies ▶ Measures to Enhance Compliance	Principles 10
Core SO4	Actions taken in response to incidents of corruption.	▶ Establishing a Compliance Committee No material law violation	Principles 10
Aspect: Public Policy			
Core SO5	Public policy positions and participation in public policy development and lobbying.	- No lobbying activities are conducted	Principles 1 to 10
Add SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	- No political contributions are made	Principles 10
Aspect: Anti-Competitive Behavior			
Add SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	-	

Aspect: Compliance			
Core SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.	<ul style="list-style-type: none"> ▶ Establishing a Compliance Committee 	
Product Responsibility			
	Disclosure on Management Approach	<ul style="list-style-type: none"> ▶ Implementing Kao's Business Conduct Guidelines ▶ RC promotion system ▶ Summary of the basic five elements of RC activities 	Principles 1 & 8
Product Responsibility Performance Indicators			
Aspect: Customer Health and Safety			
Core PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	<ul style="list-style-type: none"> ▶ Establishing a company-wide mechanism ▶ Pursuing quality throughout the entire product life cycle ▶ Pursuing safety through science and considerations of actual use ▶ Implementation of thorough product quality management from two perspectives 	Principles 1
Add PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	-	Principles 1
Aspect: Product and Service Labeling			
Core PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	<ul style="list-style-type: none"> ▶ Kao's Response to Stakeholders ▶ Introducing the Approval Circulation System Appropriate labeling confirmed by relevant divisions ▶ Providing information on the website ▶ Continuously implementing information exchange meetings with sales distributors ▶ Supporting customers' 	Principles 8

		▸ hygiene, safety, and environmental management	
Add PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	- No material violations	Principles 8
Add PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	▸ Consumer Response System ▸ Practicing <i>Yoki-Monozukuri</i> ▸ Understanding Consumer Awareness to Improve Customer Satisfaction	
Aspect: Marketing Communications			
Core PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	▸ Promoting compliance activities in product labeling and advertising	
Add 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.	- No material violations	
Aspect: Customer Privacy			
Add PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	- Not applicable	Principles 1
Aspect: Compliance			
Core PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	- No material violations	

Independent Review



To: Mr. Motoki Ozaki
President and CEO, Kao Corporation

Independent Verification Opinions on CSR/Sustainability Report 2010

June 21, 2010

Saburo Nakata
Chief Director, Responsible Care Verification Center
Japan Responsible Care Council

■ Purpose of verification

This verification report aims to express opinions of the Responsible Care Verification Center, in its capacity as an expert in the chemical industry, on the following matters as to CSR/Sustainability Report 2010 prepared by Kao Corporation (hereinafter, "the Report"). The scope of the verification is confined to matters related to the environment, health and safety.

- 1) Rationality of methods to calculate and compile performance indices (numeric values), and accuracy of numeric values
- 2) Accuracy of information other than numeric values contained in the Report
- 3) Evaluation of Responsible Care activities
- 4) Characteristics of the Report

■ Verification procedure

- For the company's Head Office, the Center audited rationality of methods to compile numeric values reported from each of its sites (offices and plants) and verified the accuracy of information other than the numeric values contained in the Report. This was done by interviewing personnel responsible for relevant business operations and those in charge of preparing the Report. The Center also examined and heard explanations of supporting documents.
- For Wakayama Plant, the Center audited rationality of methods used to calculate numeric values that were reported to the Head Office, accuracy of the numeric values and accuracy of information other than the numeric values contained in the Report. The Center conducted the audit by interviewing personnel responsible for relevant business operations and those in charge of preparing the Report, examining supporting documents and hearing explanations of those documents. The Center also cross-checked the data and information against other material evidence.
- The Center used the sampling method to verify the numeric values and information in the Report.

■ Opinions

- 1) Rationality of methods used to calculate and compile the performance indices (numeric values), and accuracy of the numeric values
 - The Center confirmed that rational methods were employed at the Head Office and Wakayama Plant to calculate and compile numeric values. It also confirmed that Kao established the Environmental & Safety Data Management System ("Kanchan" System), which automatically aggregates numeric values related to environmental and occupational safety activities.
 - Insofar as we audited, numeric values for performance are accurately calculated and compiled.
- 2) Accuracy of information other than numeric values
 - The Center confirmed that the information contained in the Report was accurate. Although the Center pointed out that the draft Report contained some inappropriate expressions and difficult-to-understand sentences, appropriate corrections have been incorporated in the final Report. The Center thus recognizes no significant errors in this Report that call for corrections.
- 3) Evaluation of Responsible Care (RC) activities
 - The Center commends Kao for its steady reduction of energy consumption, greenhouse gas emissions, discharged VOC substances and final waste disposal volume. It also acknowledges that Kao achieved the fiscal 2009 targets for reducing transportation energy consumption and greenhouse gas emissions at non-production sites.
 - The frequency rate of occupational accidents (in the Production & Engineering and R&D divisions) is lower than the chemical industry's average frequency rate. The Center regards it highly that Kao maintains a high level of occupational safety activities. It expects Kao will make further efforts to reduce the rate of occupational accidents at (domestic and overseas) Group companies.
 - The Center recognizes the Wakayama Plant's efforts, as the Plant has promoted active corporate citizenship activities such as Kao's "Kigyuu-no-mori" (corporate afforestation) program, has sustained its record of zero accidents since May 2004 and has steadily reduced the amount of landfill disposal.
- 4) Characteristics of the Report
 - This Report, which covers all results of Kao Group activities as well as quantitative data from an environmental and social perspective for the last financial year, is published on Kao's website. Major topics are also featured in the Kao Annual Report (booklet) that looks at the Kao Group from environmental, social and economic viewpoints.



Enriching lives, in harmony with nature.