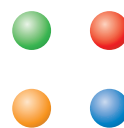




# Corporate Social Responsibility Report 2005

April 1, 2004 – March 31, 2005

Kao Corporation



# Kao contributes to the satisfaction and enrichment of the lives of people through “Yoki-Monozukuri”.

## Kao's Approach to CSR

Kao's mission is “to strive for the wholehearted satisfaction and enrichment of the lives of people globally”. In carrying out this mission, Kao strives to globally promote CSR activities and thereby contribute to the sustainable development of society.

In implementing “Yoki-monozukuri”, Kao evaluates the economic, environmental, and social elements at each stage, including product development, procurement, production, distribution, use, and disposal from the viewpoint of the sustainable development of society, and always seeks to make further improvements.

To improve the fairness and transparency of corporate activities, Kao discloses accurate and relevant information promptly and fairly, and promotes dialogue with a range of stakeholders, including consumers and customers, to monitor its operations from the viewpoint of society.

Kao conducts CSR Activities based on ethics and compliance with law.

## Yoki-Monozukuri

We define “Yoki-Monozukuri” as “a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction”. In Japanese, “Yoki” literally means “good/excellent”, “Monozukuri” means “development/manufacturing of products”.

### Before you read this report:

This report introduces Kao's operations from the perspective of Corporate Social Responsibility (CSR), with a focus on activities in Japan during fiscal year 2004. We plan to use the report as a communication tool to promote dialogue with a variety of stakeholders.

- From our Environment, Safety and Social Report to the new CSR Report

In 1998, Kao started issuing the Environment, Safety and Health Report, which was replaced by the Environment, Safety and Social Report in 2004, as an effort to promote environmental activities and enhance disclosure. From this year, the title of the report has been changed to the CSR Report. The CSR Report 2005 enriched reports on Kao's stakeholders and Kao's management system.

- Improved readability and stakeholder-based reports

In this report we pay special attention to chapter structure, layout, and tables, as well as use of color, by taking into account the differing interests and concerns of a wide range of stakeholders, including consumers, customers, business partners, local

communities, shareholders, and employees. In the feature pages, our “Yoki-Monozukuri” report covers the entire outline of Kao's efforts, and “Together with Stakeholders” describes Kao's relations with major stakeholders.

- Improving reliability

As in our previous reports since 2003, CSR Report 2005 has been verified by a third party. This year, the report was reviewed by the Tohatsu Environmental Research Institute Ltd. We also held a meeting of stakeholders who read the Environment, Safety, and Social Report 2004, and have attempted to reflect their opinions in the CSR Report 2005.

- The report was prepared in reference to the following guidelines

GRI 2002 Sustainability Reporting Guidelines

Environmental Reporting Guidelines (2003) by the Ministry of the Environment of Japan

Environmental Accounting Guidelines (2005) by the Ministry of the Environment of Japan

### ● Company outline (as of March 31, 2005)

Company Name: Kao Corporation  
 Address: 14-10, Nihonbashi Kayabacho  
 1-chome, Chuo-ku, Tokyo, Japan  
 Founded: June 1887  
 Incorporated: May 1940  
 Paid-in-Capital: 85.4 billion yen  
 Number of Employees: 5,600  
 Representative: Motoki Ozaki,  
 President and CEO

### ● Scope of reporting

#### Organizations covered:

Basically, the Kao Corporation described above is covered. When domestic group companies are included in the Report, this fact is noted in the text. Regarding overseas group companies and plants, these are only included in environmental performance and ISO attainment data in the data section.

#### Period covered:

Performance data covers Fiscal Year 2004 (April 1, 2004 to March 31, 2005). However, activities in fiscal year 2005 are partially covered.

#### Activities Covered:

The Report covers CSR activities in relation to business operations described on page 56.

\*Rounding methods for data prior to 2004 have been standardized. Figures in this report will be reported in the future publication.

\*Detailed data on economic performance is available in our Annual Report 2005 and on our investor relations Web site (<http://www.kao.co.jp/en/ir/annualreport/index.html>).

Issue date of previous report: July 2004

Next scheduled issue of the report: July 2006

URL: <http://www.kao.co.jp/en/>

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# Aiming to be a fair and transparent company through dialogue with Society

## Corporate social responsibility based on corporate philosophy

During its 110-year history, Kao has contributed to society through Yoki-Monozukuri, which is at the core of its business operations. We are striving to constantly listen to the voice of consumers and other stakeholder, to avoid our mission simply becoming a one-sided belief, and are endeavoring to assume full corporate responsibility as a member of society.

In October 2004, we incorporated our corporate culture and spirit into a corporate philosophy “The Kao Way” by taking into account both the traditions of the past and our future vision. We also confirmed that our mission is the basis of Kao’s CSR activities—that is, to strive for the wholehearted satisfaction and enrichment of the lives of people globally.

In The Kao Way, we determined “integrity” as one of important corporate values. This comes from a phrase in the last words of Kao’s founder, Tomiro Nagase, who said, “One should know that great success in life is not possible without good fortune. Good fortune is given to only those who work diligently and behave with integrity”. Integrity means observing corporate ethics, such as compliance, as well as working honestly and in good faith. This is the fundamental basis and the identity of Kao’s CSR activities.



### Kao's previous CSR activities

Kao's business comprises two operational areas. One is business dealing with consumer products and prestige cosmetics that provide cleanliness, beauty and health. This area is quite familiar to consumers. The other is our chemical products business, which contributes to industrial development in the field of chemicals. These two businesses generate synergistic effects in terms of R&D and production. Thus, while Kao is a leading maker of consumer products and prestige cosmetics, it is also a manufacturer of chemical products.

At Kao, the different divisions have been committed to CSR activities using various approaches. In product development, for example, we have continued to promote dialogue with consumers to really get to know their needs. Also, in order to cope with environmental challenges, we have been making efforts to reduce the environmental impact of our production activities. Our belief, embedded in these initiatives and our commitments, is featured in the "Yoki-Monozukuri" section.

### CSR promotion system and future challenges

In July 2004, our CSR Department was established, and at the same time the CSR Committee, chaired by myself, was set up. The aim of these actions is to clarify the position of CSR-related activities, which have been carried out individually by each division, within our overall operations, and promote them systematically.

During the first year, emphasis was given to sharing CSR concepts among all employees and identifying the issues that we are facing. From the issues we identified, we recognized that there were two most important challenges that needed to be addressed at present. One was the

response to environmental and social issues in the supply chain, which should be done in cooperation with business partners. The other was the creation of a workplace that enables each employee to fully utilize his or her diversified competences. Moreover, we see it as a major future challenge to develop products that are closely linked to common social issues, such as the advancement of the aging society with fewer children.

Since this report covers only domestic operations and activities during fiscal year 2004, we think it necessary to promote CSR activities at Kao group companies worldwide and to collect information on those initiatives that can then be presented to the public.

### Participation in the UN global compact

By carrying out CSR activities based on the policies described above, I would like to review Kao's overall operations from a wider social perspective in order to constantly offer new and innovative products.

We are also striving to be a company fairer and more transparent to society through expanded dialogue with a range of stakeholders and social contribution activities, including support for art and culture. This report is one of the tools to promote dialogue with various stakeholders. We hope that you will read this report and let us have your views and comments.

As CEO of Kao, by listening to your voices, I will promote sound operations to contribute to the development of society and environmental conservation.

In closing my message, I would like to announce that Kao participated in the United Nations Global Compact in April 2005. By becoming a member of the Global Compact, Kao has declared its commitment to these principles to the world.

July 2005



Motoki Ozaki  
President & CEO  
Kao Corporation

## “Yoki-Monozukuri”



Ever since we launched *Kao Soap* in 1890, we have striven for the satisfaction and enrichment of the lives of people.

Having launched the first quality toilet soap in Japan in 1890, Kao has continuously expanded its business in the area of consumer products, such as detergents, and chemical products, such as fatty chemicals. During our long history, we have always endeavored to contribute to cleanliness, beauty, and health for all people.

### Founder's aspiration—birth of the first quality toilet soap *Kao Soap*

Tomiro Nagase, Kao's founder, who was not happy with the quality of the domestic soaps of the time, launched the first quality toilet soap in 1890. This is the starting point of our path to the goal of providing consumers with superior products at reasonable prices. In 1980, 90 years after *Kao Soap* was launched, we introduced *Bioré*, a mild facial cleanser. This product helped disseminate the concept of a cleansing foam that could replace soap. Since then, we have continuously proposed new ways for facial cleansing and



bathing. Even after such a long time, our founder's spirit has been carried onward.



### Establishing “shampoo” in Japan

In 1932, Kao launched *Kao Shampoo* (bar soap type), which contributed to the establishment of the word “shampoo” in people’s everyday lives. After this shampoo, we introduced a rinse, *Kao Tender*, which helped spread after-shampoo rinsing among Japanese people. Today people take shampoos and rinses for granted, and it is fair to say that Kao has played a significant role in spreading this lifestyle.



### Widespread use of washing machines

In 1951, Kao marketed *Wonderful*, laundry powder detergent, which changed the style of laundry cleansers from soap to detergent. In 1987, we launched *Attack*, the first “ultra-concentrated detergent” in the world. *Attack*, which was developed using biotechnology, has high detergency and compact size—almost one-fourth that of traditional detergents. The flow of the detergent market was altered once again by this product.



### Continuous innovation in housework

Since the launch of *Mypet*, the first household liquid cleaner in Japan in 1960, Kao has been developing household cleaners to meet specific purposes. In order to satisfy growing needs for cleaning wooden flooring, Kao introduced the *Quickle Wiper* cleaning kit in 1994. This is an example of how we have responded to changes in people’s lifestyles.



### Contribution to industrial development

In 1928, Kao marketed *Econa* edible oil for food industry use. *Econa* was developed by integrating research results concerning fats, the raw material used to produce soap, and refining technology. We have also provided chemical products such as water reducing agents for concrete, de-inking agents, CFC alternatives, and copier toners to support industrial development, as well as to protect our environment.



### Improving the comfortability of life

In 1979, Kao introduced *Laurier*, a new type of sanitary napkin, which was the first consumer product developed in the world using super-absorbent polymers. This technology was then applied to the production of *Merries*—disposable baby diaper. In 1990, to help meet the needs of the aging society, we have also marketed *Relief*, adult incontinence products.



### Contributing to the beauty of women

During the 1980s, Kao became fully engaged in business in the pursuit of beauty. We introduced a range of basic skin care products, *Sofina* prestige cosmetics, developed based on extensive dermatological research. *Sofina* prestige cosmetics were different from traditional cosmetics that sought merely superficial beauty, as *Sofina* provides what is really good for skin. Conducting detailed research on women’s skin, we succeeded in balancing beauty and skin health.



### Responding to changing social needs

Reflecting the growing concern about health, Kao started marketing health care products. In 1999, we launched *Econa Healthy Cooking Oil*, which was recognized as Food for Specified Health Use by the Ministry of Health, Labour and Welfare. In 2003, we marketed *Healthya Green Tea*, which contains significant amounts of tea catechin (recognized as Food for Specified Health Use). We have continuously created new values by responding to evolving needs.



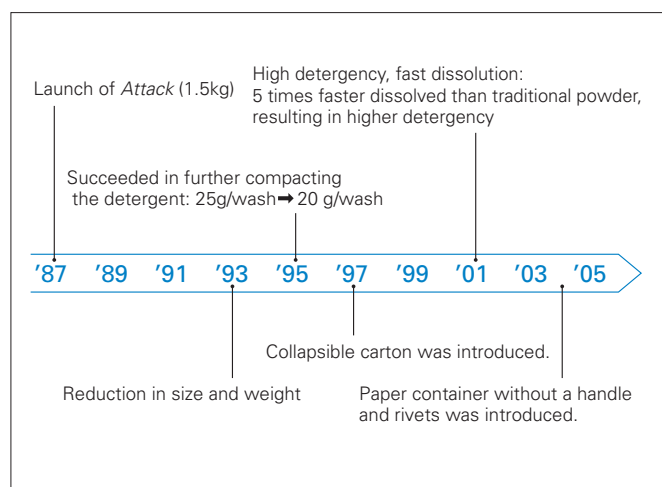


## Attack is the embodiment of Kao's philosophy on society and environment.

The primary social responsibility for manufacturers is to contribute to society through their products. Kao's belief in social responsibility is reflected in each of its product. Here, we would like to explain Kao's approaches to social and environmental issues by illustrating how *Attack*, which is one of our main products, was developed and is being improved.

### **Attack—an environmentally-friendly product with consideration for society**

*Attack*, which was launched in 1987, was the first “ultra-concentrated detergent” in the world. We succeeded in reducing the volume to almost one-fourth that of earlier traditional detergents, which not only made it easier to handle but also reduced many environmental burdens. In addition, through biotechnology, we developed a new enzyme. Applying this enzyme to *Attack*, we were able to significantly improve its cleaning performance. So *Attack* is a



truly innovative product in that sense. Since then, we have made more than 20 different improvements to *Attack* to enhance its cleaning performance, and each time we have also reexamined our approach to social and environmental issues.



### Extraordinary cleaning performance

We developed an active bio enzyme, alkaline cellulase, which acts on stains trapped in fabric and removes them. By applying this mechanism to *Attack*, we achieved an even better cleaning performance. Also, by concentrating the detergent ingredients, we succeeded in “bringing out amazing whiteness with one spoonful”.



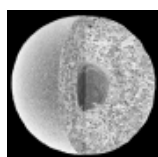
### Easy to measure

An easy-to-use measuring spoon was first contained in *Attack* so that consumers did not use too much detergent. This contributes to save resources and energy and reduce chemical emissions released by laundry effluent.



### Fast dissolution

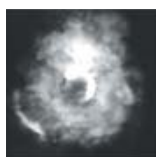
Recent washing machines use less water, less time and less electricity, enabling larger amount of items to be washed in shorter time with less water. Therefore, we improved *Attack* to cope with these features by shortening dissolution time of the detergent to achieve high cleaning performance sooner.



Micro particle



Mixed with water



Particle immediately bursts and dissolves.

### Easy to dispose

The paper container used for *Attack*, improved and marketed in the spring of 2004, has no handle and rivets, which helps facilitate sorting when it is disposed of. The container is also collapsible. The paper container, lid, and measuring spoon are made from recycled materials to support resource recycling.



### Environmental effects

Reducing volume and concentrating detergent ingredients, we achieved a 50% reduction in the amount of detergent needed per 30 liters of water, a 64% reduction in the weight of packaging materials per package, and an 80% reduction in volume compared to regular powders (i.e. those before launching *Attack* in 1987). Moreover, production energy was reduced by 44% and quantity loaded on a pallet for transportation was improved by 3.6 times per pallet.



Comparison with traditional detergent (before introduction of ultra-concentrated detergents)

### Aiming to give total satisfaction to consumers who use *Attack*

**Mitsunori Saka** Fabric and Home Care Division



In order to understand changing consumer needs and make continuous improvements and proposals, it is indispensable to visit sites where products are actually used and find out consumers real requirements and expectations. What I seek is not only consumer satisfaction in product performance, but also the pleasure they feel when using *Attack*. Keeping this in mind, I work for Yoki-Monozukuri. I make an effort every day so that more people think *Attack* really is the best detergent.



## To improve consumer satisfaction, we are developing products based on active communications with our consumers.

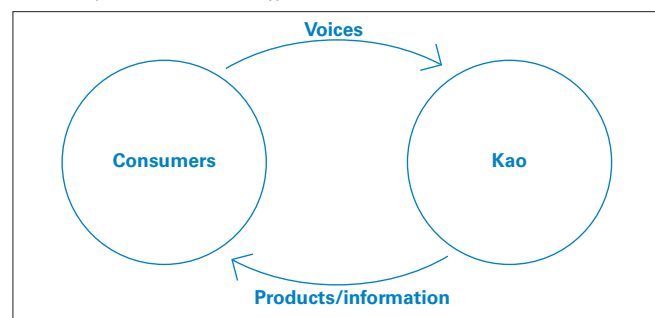
Kao's foremost principle is to provide consumers with products that satisfy their needs. To put this into action, at every stage of our operations, from product development to follow-up after marketing, we create opportunities to listen to consumers. This approach ensures that each employee develops and improves products from the consumer's point of view.

### **The basis of Kao's product development is the fusion of R&D seeds\* and consumer needs.**

Through communication with consumers, we try to understand consumer needs and expectations, and what kind of products can contribute to their quality of life. At the same time, we are actively engaged in developing R&D seeds that play a key role in meeting consumer needs. The ability to identify consumer needs and to develop R&D seeds constitute Kao's two important pillars for product

development. At every stage of operations, we maintain a constant dialogue with consumers. For example, when we conduct market research as to what kind of products are needed, or when we are in the process of product development, or when we follow up products to make improvements, we always communicate with consumers. We promote communication with consumers to create an interface between their needs and our R&D seeds in order to make the best possible products.

- Kao's website on R&D activities:  
[http://www.kao.co.jp/rd/index\\_e.html](http://www.kao.co.jp/rd/index_e.html)



\* We define the meaning of "seeds" as the unique key technological elements, such as materials, phenomena, compositions and technologies.

## Market research stage



The development of superior products starts by knowing consumer needs through communications with them. Staff at our product development division and marketing division, therefore, conduct group interviews with consumers and visit their homes to

search for their needs and expectations concerning consumer products. The Kao Lifestyle Research Center carries out in-depth research on consumer lifestyles and their changing awareness. Primary activities of the Center are contacts and communication with individual consumers (consumer monitoring) and with experts from a wide range of fields.

## Development stage



In developing products, we focus on developing unique products by getting the most out of our R&D seeds. At the same time, we conduct thorough research on consumers to confirm that our products are achieving consumer satisfaction. Our Hair Care

Research Laboratories, which conduct R&D on hair care, for example, ask consumers to use our trial products. Consumers' opinions and feedback are then sent to R&D members to improve the functionality and performance of the products.

## Follow-up stage



The Consumer communications Center deals with inquiries from consumers about Kao products. The center receives about 120,000 calls and letters a year. In 1978, we introduced the Kao Echo System, a database that compiles information received at the Center, to fully reflect the voices of consumers in

the development of products. This data can then be shared by the entire company. We analyze and systematize the data for use in developing and improving our products.



### From the consumer's point of view

**Shoichi Hasegawa**

Personal Care (Skin Care & Beauty Care) Division

Of the product evaluations by consumers, what I think most important is whether they can imagine themselves using the product immediately that they see it, and whether or not they find it disappointing after using it. It is also crucial that I detect consumer's underlying concerns, problems, and anxieties. In particular, I pay attention to the actual daily life situation of the targeted consumers, how they feel when using the product, and the satisfaction and sense of security they get from using the product. I always try to act from the consumer's point of view and to have a sense of empathy between us.



### Developing products that I want to buy myself

**Megumi Sato**

Hair Care Product Research Laboratories

We beauticians know that people's hair has a variety of textures. Engaged in R&D as a beautician, my job is to provide hair quality information to our researchers. We use dozens of trial products ourselves or ask consumer monitors to use them to check the quality of the shampoo's bubbles, the crunch of hair, and the touch after drying, for example. Products are then developed based on such consumer voices. Products are not regarded as finished unless we feel like buying them ourselves—from a consumer's point of view.



### Listening to consumers' voices is the start

**Norie Kameda**

Consumer Communications Center

In my everyday work providing consumer advisory services, I try to understand consumers' feelings and thoughts toward our products and listen to them from the consumer's point of view. What did they find unpleasant or inconvenient? What should be done to address these problems? Are there any ways to better use the products? I listen to every aspect of their experiences. If I cannot completely understand someone's problem, I visit them to find out the cause of their concerns and attempt to resolve the matter. We have quite a number of such cases. Although a consumer's comments may appear trivial, they often contain an important message, and therefore I always try to listen attentively to each consumer.



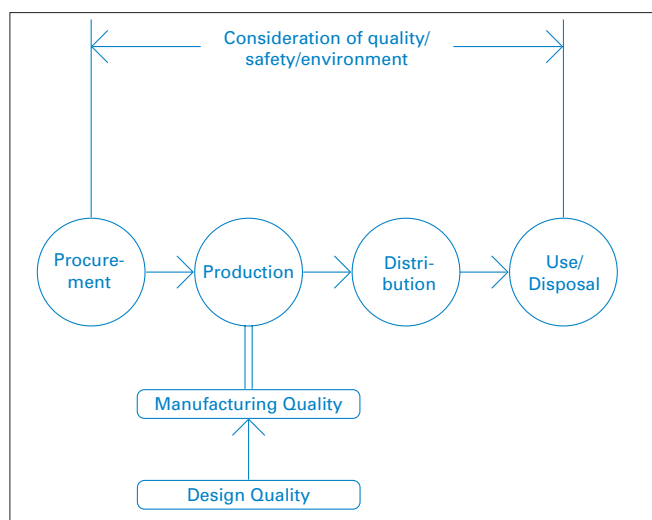


## Paying careful attention to quality, safety, and the environment at every stage of production

To provide consumers with reliable products, Kao implements thorough manufacturing quality management. Through this approach, we make certain that design quality, which was formulated in the product development process, is put into practice in the manufacturing process. At the same time, we make efforts to secure the safety of our employees and those people living near our factories. We are also taking action to minimize the environmental impact of our production by strictly managing chemical substances.

### Ensuring safety and reducing environmental burden throughout the product lifecycle

The raw materials of Kao's products are, whether natural or synthetic, classified as chemicals. We reduce the negative effects of these chemicals on people, local communities, and the environment, by strictly managing chemical



substances throughout the product lifecycle, from raw material procurement, production, distribution, to use and disposal by consumers.



## Quality assurance



At Kao, when we move stages from designing to production, we implement a “zero batch” method to confirm product quality. In the zero batch, test production is carried out under the same condition as actual production. We always perform this test before moving on to commercial

production. In addition to the introduction of ISO9000 series quality management system into plants, we conduct strict quality inspections in accordance with various internal standards and regulations. As measures to further improve quality, quality management activities by all members are promoted at each workplace, and best practices and any problems are shared by the entire company.

● For details, see page 22.

## Safety and Health



Kao conducts risk assessments, referring to the Occupational Safety and Health Management System (OSHMS) at its plants. The Safety and Health Committee discusses measures to eliminate occupational accidents. These measures are used to improve facilities and

working environment as well as in safety education for employees. We also conduct a regular disaster drill, and in January 2004 started providing data on the incidence of occupational and traffic accidents on the company intranet.

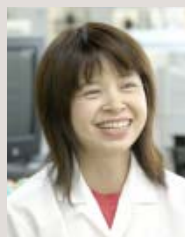
● For details, see pages 24 and 34.

## Environmental management



Kao sets numerical targets for energy conservation and reductions in greenhouse gas emissions, waste, and chemical substance emissions. While taking action to attain these goals, we regularly conduct environmental measurement in regard to the air, discharged water, and the soil in plant. Regarding the final disposal amount of industrial waste, we are making efforts to achieve zero emissions. In April 2004, we began a new green procurement program.

● For details, see pages 24 and 42.



## Meeting consumers' expectations

**Toshie Okuda** Tokyo Plant

In the sensory assessment of our quality management for cosmetics, the smell and color of tested products are compared with those of standard products. In order to eliminate defective products, we not only

test the products themselves, but also check the trends of specific measured values every day. If an abnormality is found, the division concerned is quickly informed. Immediately, action is taken to investigate the causes and an appropriate response is made. I, as a consumer as well as an inspector, carry out exhaustive inspections of the contents, containers, and packaging in order to maintain the highest standards of quality. I don't want to disappoint any of our customers.



## Eliminating potential dangers

**Takao Sato** Tochigi Plant

As a leader that must promote workplace safety and health, I always comply with safety rules and try to improve operations based on six principles: an organized workplace; order; cleanliness; hygiene;

discipline; and practice. I value communication with colleagues. At the same time, I conduct risk assessment of machinery and equipment without failure to detect potential dangers early (for example, unsafe practices or unsafe places) and take immediate action. These efforts have been recognized, and I am proud to say that I was given the 2004 Minister of Health, Labour and Welfare's award as an excellent safety leader.



## Valuing everyday communication

**Yasuo Ishii** Sakata Plant

I think mutual trust and cooperative relations with employees are essential for work concerning the environment. Unless I maintain excellent communication with staff on a daily basis, I cannot get detailed

information or hear their real opinions. And this means that I cannot earn their trust or build cooperative relations with them. Therefore, I value everyday greetings and conversation. Environmental management is very important in terms of assuming our social responsibility and protecting the health and environment of both employees and local residents.



## We value bilateral communications with stakeholders to live up to the expectations of society.

Kao strives to have opportunities to have bilateral communications with various stakeholders to understand objectively the social responsibilities that we are expected to fulfill. In fiscal year 2004, we organized the second “reading of the report” meeting. We will utilize the opinions from the meeting for our CSR activities.

### Listening to stakeholders’ voices

There is no point in thinking seriously and implementing the social responsibilities that a company should fulfill if such efforts are merely self-righteous. We place importance on continuous communications with our stakeholders on a daily basis. We visit the work sites of customer companies and often conduct factory tours at our plants.

To objectively understand the corporate social responsibilities that are required of Kao, we conduct

employee awareness surveys, supplier satisfaction surveys, and investor meetings to invite opinions from each standpoint and to enhance mutual understanding.

Please refer to the following pages for information on our communications with each stakeholders.

- |  |        |
|--|--------|
| ● Communications with consumers                  | → P.28 |
| ● Communications with customers                  | → P.30 |
| ● Communications with employees                  | → P.32 |
| ● Communications with local communities          | → P.36 |
| ● Communications with suppliers                  | → P.40 |
| ● Communications with shareholders and investors | → P.41 |

## Stakeholder meeting

In January 2005, we held “Reading of our Environment, Safety and Social Report” meeting with stakeholders. We introduced our efforts to NPOs and experts and asked for their comments on our activities.

At the meeting, we outlined the Environment, Safety and Social Report 2004 and participants evaluated the report and our CSR activities. We had lively discussions on various points that should be dealt with in more depth in the 2005 report and on the topics regarded as important for CSR reports and activities.

Regarding our Environment, Safety and Social Report 2004, the participants pointed out that the report was sometimes ineffective in conveying a message in readily understandable manner and it failed to set out Kao's commitments to making a social contribution. For future reports, they suggested that reports should be compiled in line with The Kao Way and that self-explanatory headings should be used. We have tried to incorporate these opinions as much as possible into our CSR Report 2005. We will make further efforts to deal with the outstanding points in future issues.

We would like to continue to have opportunities to exchange views with our stakeholders and to maintain a diverse range of communications.

### “Reading of the Kao Environment, Safety and Social Report 2004” meeting

Time and Date: 14:00 - 17:00, Monday, January 31, 2005

Venue: Kayabacho Office, Kao Corporation

Kao staff participating: General Manager and six members from the Corporate Communications Division; one member from the Environment and Safety Division; and one member from the Human Resources Division



#### Facilitator: Mr. Hideto Kawakita

(Representative of IIHOE, International Institute for Human, Organization and the Earth)

“Reports should put greater emphasis on the topics that Kao wants the readers to remember”.

#### Ms. Akiko Kawamura

(Chairperson, Tokyo Voluntary Action Center)

“I want Kao to get involved more actively in environmental education for its employees and consumers”.

#### Ms. Momoko Koga

(Representative, Fukuoka NPO Center)

“Communications that cite Kao's products can help readers feel more familiar with Kao”.

#### Mr. Kazunori Koyabashi

(Japan for Sustainability)

“The reports should contain more global information—they should help consumers and Kao grow together”.

#### Ms. Keiko Nakagawa

(Vice Executive Director, Chubu Recycling Citizens' Organization)

“The reports should underscore Kao's efforts. Proactive information disclosure should help a company to grow into an organization that can attract consumer support”.

#### Mr. Shinsuke Harai

(Representative of HR LAB Ltd.)

“Companies can be understood by showing more pictures of their employees and how they work. Reports should contain detailed numerical changes in human resources”.

#### Ms. Chieko Kikuchi

(NACS, Instructor of Sanno College)

“The report conveys Kao's sincerity in describing the efforts the company is making. Future reports should include the impacts that consumers can have on the environment to further educate readers”.

#### Ms. Emi Gamo

(NACS, Tutor at Meiji University)

“By making the stakeholder meeting process open to the public and ensuring greater transparency, Kao can gain the further trust of consumers”.

Opinions	Representative improvements
Unable to understand Kao's corporate attitude. Cannot feel so familiar with the company.	Opening features have been inserted to get across all Kao's corporate activities. This report indicates the relationships with each stakeholder individually.
Unable to see the faces of employees. Pictures are small and few.	Increased columns of employees in charge and work site photographs. Used larger pictures.
Needs more communication through the medium of products.	Introduced Kao's contributions to society through its products in the special feature “Yoki-Monozukuri”.
Difficult to understand correlation between policies.	Presented the general policies on the page of Management Structure. Detailed policies have been inserted at the bottom of pages and incorporated into the data section.



# Highlights of CSR Activities in Fiscal Year 2004

## 1. Establishment of CSR promotion structure

In July 2004, we established the CSR Committee chaired by President & CEO and the CSR Department to further enhance Kao's CSR activities.

● For details, see page 16.



## 2. Establishment of the Kao Way

In October 2004, we formulated the Kao Way (corporate philosophy). We will ensure full-fledged implementation and sharing of ideas by the entire Kao group, including overseas affiliates.

● For details, see page 17.



## 3. Ensuring a good balance between work and life

We enhanced our work and life balance programs to help employees successfully manage their work and family in order to realize a workplace where employees can work comfortably and demonstrate their full potential. We were proud to receive the "2004 Family-Friendly Award".

● For details, see page 33.



## 4. Sound physical and mental health management for employees

We enhanced our support to employees' mental health in addition to physical health promotion. We established a mental health counseling hotline utilizing an external specialist and conducted mental health training programs for our employees.

● For details, see page 34.



## 5. Enhancement of personal information protection

To comply with the Law concerning the Protection of Personal Information enforced in April 2005, we established various control systems, stipulated internal regulations, held training sessions for employees, and conducted an audit.

● For details, see page 21.



## 6. Heart Pocket Club activities

The Heart Pocket Club was inaugurated and started its activities. This is a donation program for the purpose of social support undertaken with the participation of our employees. Donations have been used for emergency restoration and social action programs.

● For details, see page 39.



## 7. Green procurement

As part of our Responsible Care (RC) activities we have established green procurement standards. In cooperation with our business partners, we are promoting chemical substances management and environmental measures.

● For details, see pages 40 and 48.



## 8. Promotion of zero emissions

Tochigi plant and Toyohashi plant successfully achieved zero emissions\* in fiscal year 2004 in addition to 3 plants that have already achieved before.

● For details, see page 50.



\* Zero emissions: To reduce the final disposal waste to less than 0.5% of the total waste generated in volume on an annual base.



## Environmental and safety activities and achievements in fiscal year 2004

As part of our CSR activities, Kao has promoted environmental and safety programs based on the Policies Regarding the Environment and Safety (see page 59). For important tasks, specific numerical objectives have been set for fiscal year 2005 and fiscal year 2010 as the mid-term goals. In fiscal year 2004, we reexamined our energy usage from production activities in accordance with the guidelines of the Agency for Natural Resources and Energy, dating back to 1990. We also revised our mid-term numerical targets, changing the focus from CO<sub>2</sub> Emissions to Greenhouse Gas Emissions and ensured that the calculation method for the gas complies with the guidelines of the Ministry of the Environment.

The table below indicates the mid-term objectives and the 2004 results. All items, except for Final Disposal of Waste and Green Purchase Amount Ratio, have already achieved their objectives for 2005.

Greenhouse Gas Emissions slightly increased from 2003 due to production increases in spite of our effort to promote energy saving.

● For details, see page 50.

For occupational safety and health, accidents at work decreased from 2003 due to the enhancement of our own occupational health and safety management system.

● For details, see page 35.

For disaster prevention activities, two minor fire incidents and one minor explosion occurred. Although damages were small and no one sustained injuries, we located the causes of the accidents, examined countermeasures, and inspected other equipments to prevent such accidents.

● For details, see page 34.

We are promoting the broader introduction into the Kao group of a system that monitors and manages occupational safety and health performance data.

● For details, see page 25.

## Tasks and future goals

In addition to the issues stated above, tasks such as information disclosure and enhanced communications, stricter risk management, and the establishment of an eco-efficiency index remain to be addressed. As in 2003, the eco-efficiency index for 2004 has been calculated and is detailed on page 25.

We will endeavor to implement our activities to achieve our goals and challenges.

## Environmental and Safety Mid-Term Goals and Achievements

Category	Index	Achievements in FY 2004	FY 2005 Goals	FY 2010 Goals
Energy saving	Energy consumed in production (Compared to 1990, unit value added index *1)	76	76	72
Greenhouse gases	Greenhouse gas emissions (Compared to 1990, unit value added index)	69	69	65
	(Compared to 1990, absolute amount)	90	-	-
Waste reduction	Final amount of waste disposed	5 out of 8 plants achieved zero emissions	Zero emissions to be achieved	Zero emissions to be maintained and 500 tons or less
PRTR	Emissions by material from each plant	1 ton or less	1 ton or less	1 ton or less
VOC*2	Emissions by material from each plant	Study started	-	1 ton or less
Green purchasing*3	Green purchasing amount ratio for copy paper and stationery	75%	At least 90%	100%
Green procurement*4	Green procurement ratio	94%	At least 90%	100%
Labor accidents	Numbers of employees injured in production and Research & Development Division	24	Not above 70% of 2003 level (35 in 2003)	-

\*1 Unit value added index: Amount per unit value added production output. Value added production output is the amount that can be obtained by excluding the variable manufacturing cost from the production output on the basis of selling price.

\*2 VOC: Volatile Organic Compounds. Specifically, VOCs fall under either the 41 substances listed by the Japan Chemical Industry Association as "Examples of chemical substances that fall under the category of VOC" or the 35 substances cited by the Industrial Structure Council as chemical substances subject to voluntary control.

\*3 Green purchasing: The purchasing of products that have less impact on the environment (green products) preferentially at the time of purchasing office supplies and office machinery, taking the entire lifecycle of the item to be purchased into account.

\*4 Green procurement: To purchase goods that have less impact on the environment (green goods) preferentially from environmental companies at the time of purchasing the goods necessary for production activities.

# Management Structure

## Identifying tasks and promoting our CSR activities based on The Kao Way

As to the corporate philosophy that forms the basis of our business activities, Kao reviewed its previous “Kao Management Principles” from a global point of view. In October 2004, we formulated the “Kao Way” to manifest Kao’s unique corporate culture and its spirit of enterprise. For Kao, CSR is simply to act based on the Kao Way.

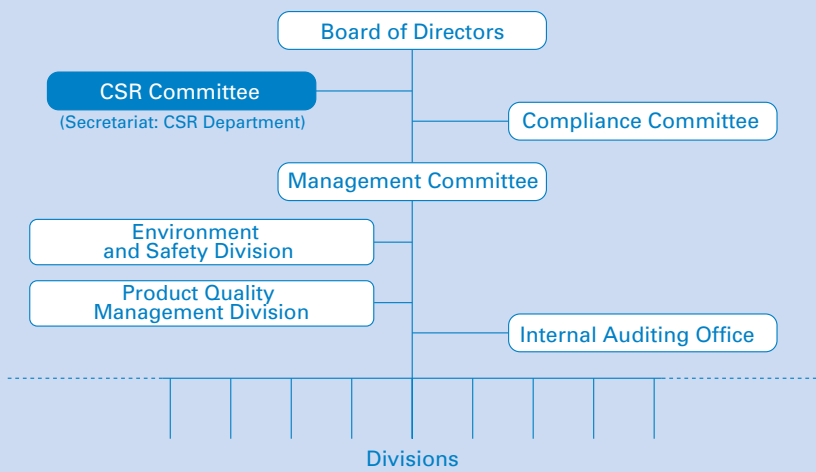
Previously, each division was engaged in its own CSR activities. To integrate such divisional efforts into overall group engagement and develop our efforts even further, the CSR Committee and CSR Department were established in July 2004. At monthly meetings of the Committee, chaired by the President & CEO, CSR challenges for the entire company are discussed and the divisions can then tackle such challenges.

We are enhancing and reinforcing the four fundamental structures for our CSR activities: 1) corporate governance structure, 2) compliance structure, 3) quality assurance structure, and 4) responsible care (RC) activity promotion structure. Our aim is to promote communications with stakeholders and global environment conservation activities. Meanwhile, we still have major challenges concerning the global implementation of our CSR activities, the introduction of the activities into the supply chain and the full utilization of our employees’ diverse capabilities. We are in the process of examining specific measures to identify the most effective approaches.

Considering that the participation in international CSR frameworks is indispensable for our effort to implement our CSR activities rigorously on a global scale, in April 2005 we committed to participating in the UN Global Compact,\* a representative of such frameworks. In addition to the Kao Way and the Kao Business Conduct Guidelines, our business principle, we will make the Global Compact another operational framework to help further promote our CSR activities.

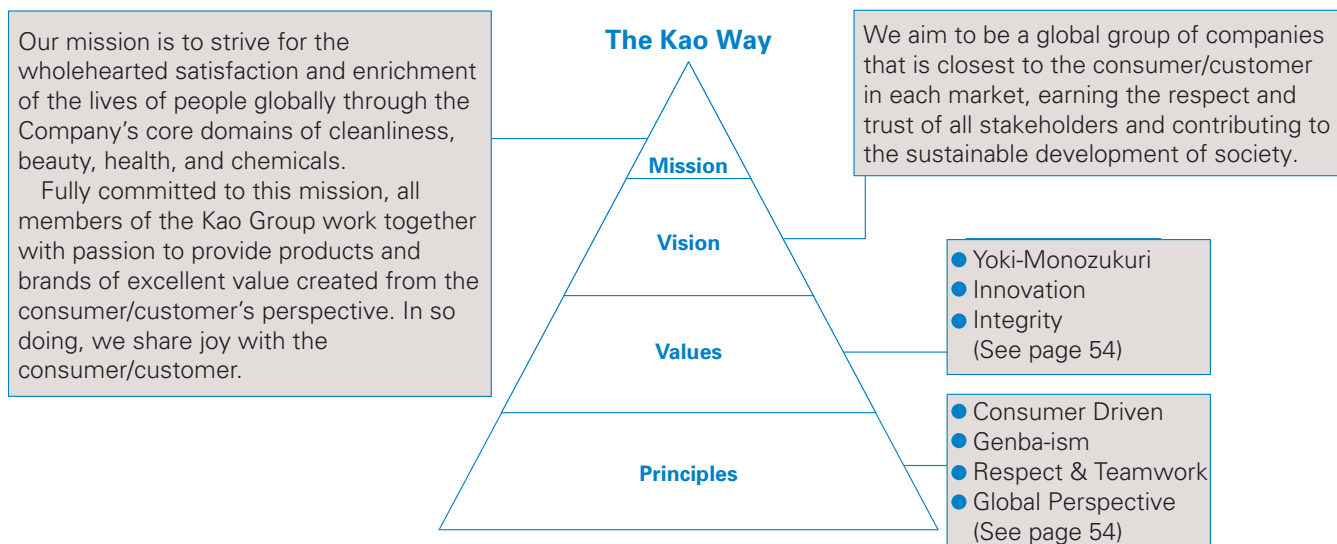
## Organization for CSR promotion

The CSR Committee is under the direct control of the Board of Directors. The position of Chairman of the Committee is assumed by the President & CEO, and the Vice Chairman of the Committee, by the Senior Executive Vice President. The Committee comprises persons in charge of the 16 divisions and CSR Department.



\* Proposed for the first time by United Nations Secretary-General Kofi Annan at the World Economic Forum (Davos Conference) on January 31, 1999. The Global Compact represents a basic framework for achieving corporate social responsibilities on a global scale and centers on the ten principles (under human rights, labor, the environment, and anti-corruption) derived from the Universal Declaration of Human Rights, ILO’s fundamental principles, and the Rio Declaration on the Environment and Development.

## Kao's CSR



### Kao's Approach to CSR

- Kao's mission is "to strive for the wholehearted satisfaction and enrichment of the lives of people globally". In carrying out this mission, Kao strives to globally promote CSR activities and thereby contribute to the sustainable development of society.
- In implementing "Yoki-Monozukuri", Kao evaluates the economic, environmental and social elements at each stage of its operations, including product development, procurement, production, distribution, use and disposal, from the viewpoint of the sustainable development of society, and always seeks to make further improvements.
- To improve the fairness and transparency of corporate activities, Kao discloses accurate and relevant information promptly and fairly, and promotes dialogue with a range of stakeholders, including consumers and customers, to monitor its operations from the viewpoint of society.
- Kao conducts CSR Activities based on ethics and compliance with law.

#### Internal Standard

Kao's Business Conduct Guidelines (See page 55)

#### External Standard

Ten principles of the Global Compact (See page 55)

### Scope of CSR activities

1. Enhancement and reinforcement of company-wide fundamental structures
  - 1) Corporate governance structure.....P.18
  - 2) Compliance structure.....P.20
  - 3) Quality assurance structure .....P.22
  - 4) Responsible Care activity promotion structure.....P.24
2. Promotion of communications with respective stakeholders .....P.26
3. Further promotion of global environment conservation.....P.42

# We are determined to continue our corporate governance reforms through active committee operation.

Kao makes strenuous efforts in reforming its corporate governance to continue profitable growth and to fulfill its corporate social responsibilities. To ensure appropriate governance, we separate the functions of supervision and execution of management and implement auditing through various supervisory systems.

## Promoting continuous corporate governance reform

The basic concept of Kao's corporate governance is to develop and improve its managerial organization and structures and implement the necessary measures in order to realize the managerial principle of continuously enhancing corporate value through profitable growth. We regard this concept as one of the most important challenges facing management today.

Kao introduced an executive officer system in 2002 within the conventional framework of directors and auditors and has implemented other measures in an effort to separate the supervisory and executive functions of management. We will continue to examine whether or not we should introduce a governance system with these committees as an important managerial issue. We have established the Compensation Advisory Committee and the Committee to Examine Nominees for the President and the chairman of the Board of Directors to serve as bodies to perform the functions of a compensation committee and a nominating committee, respectively, under the committee system. Furthermore, we have established a Compliance Committee to conduct programs to ensure compliance with laws, fairness, and ethics in our corporate activities.

## Members of the board of directors, the separation of supervisory and executive functions, and the Chairman/President appointment process

Since fiscal year 2002, Kao has reduced the number of the Board members and introduced an executive officer system.

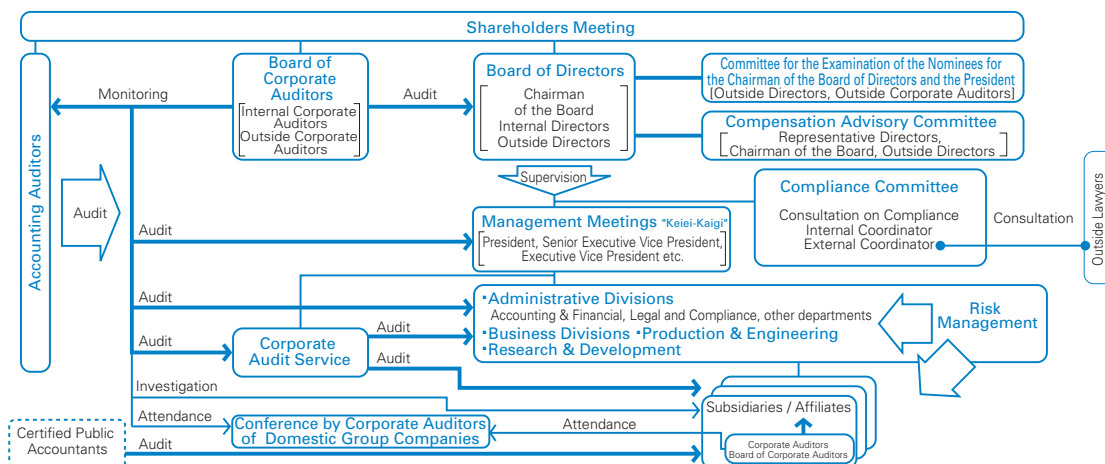
As of the end of March 2005, there were 15 Board members (including two outside directors) and 17 executive officers, including 12 officers who also served as directors. In fiscal year 2003, the position titles of "President", "Senior Executive Vice President", and "Executive Vice President" were assigned to executive officers instead of directors. The title of "Chairman" now refers to the Chairman of the Board not to an executive officer. This ensures the separation between supervisory and the executive functions. After the General Meeting of Shareholders held on June 29, 2004, a Chairman of the Board of Directors without the right of representation was appointed. At the appointment or recommissioning of the Chairman/President, the Committee for Examination of Nominees for the President and the Chairman of the Board, comprising only outside directors and auditors, is held to review the suitability of candidates in advance and advise the Board of Directors.

## Evaluation and compensation of directors

To enhance the transparency of directors' evaluations and treatment, Kao has established the Compensation Advisory Committee. This is designed to verify the appropriateness of the compensation programs and levels applied to the members of the Board and to executive officers, by inviting the opinions of outside directors. The outside directors have reviewed the compensation programs and levels of the compensation to the members of the Board and executive officers and judged them to be appropriate for fiscal year 2005.

By incorporating a stock option program into the compensation system for board members, executive officers

## Governance Structure





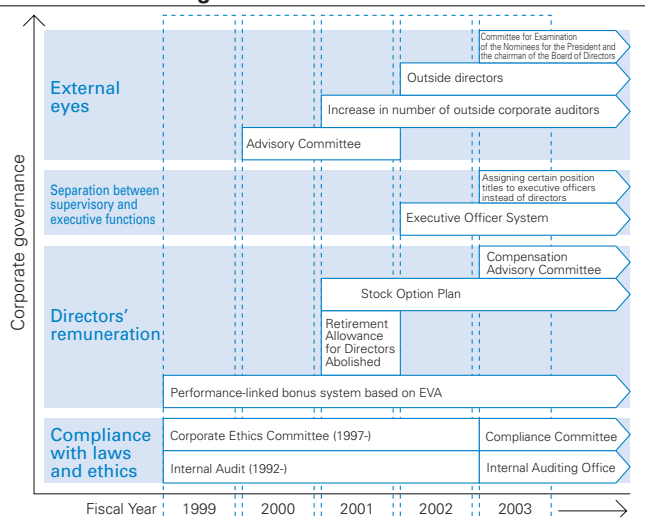
and other key employees, we try to ensure that directors share interests with other shareholders. Bonuses paid to company executives are clearly linked to business performance. Accumulation of directors' retirement allowance has already been abolished. In addition, all directors regularly undergo multifaceted evaluations. This evaluation is designed to identify the leadership values and competences that directors should possess. Being evaluated by superiors, peers and subordinates helps directors realize any inadequacies in their competence or qualifications and encourages them to improve their performance.

#### Various internal and external supervisory structures

The Internal Auditing Office has been established to audit the appropriateness of operational processes and management adequacy and efficiency of the Kao Corporation, including domestic and overseas affiliate companies. Currently, the Office with 25 staff, including those from group companies, cooperates with audit staff specializing in the environment and safety, quality assurance, and export controls, and with an international audit task force staff in the overseas affiliate companies.

Kao's auditors hold regular liaison conferences with auditors in the domestic group companies to exchange auditing information. A framework has also been established where advice on corporate management and day-to-day operations can be obtained from lawyers and other professionals as needed for reference when making business judgments. For important affiliate companies, we ask audit corporations to conduct auditing arbitrarily, based on the laws and regulations concerning corporation.

#### Continuous Management Reform



#### General Meetings of Shareholders

Kao sends notices to shareholders four weeks before a general meeting so that our shareholders can exercise their voting rights and have ample time to examine the agendas. For the convenience of foreign shareholders, we also prepare an English translation of the notice and post it on our Web site. Explanations and resolutions at general meetings are also disclosed on the web site both in Japanese and English. Taking the opportunities offered by such general meetings, we also present a video introducing our company, and set up dialogue opportunities with directors. We strive to make our general meeting even more open by undertaking various measures—such as product displays—at the site of the meetings, to help attendees to become more acquainted with Kao.

#### Risk management ensured company-wide

Kao's Risk Management Office was established in 1999. We set forth our "Risk Management Policy" and have been engaged in company-wide risk management activities based on this policy. Basic activities place emphasis on: 1) risk prevention and control; and 2) risk management in the case where a risk materializes and a contingency occurs. As to 1), centering on company-wide divisional risk investigation and the identification and management of major risks, we have promoted the establishment of an organization-wide risk management structure and apply this structure to day-to-day operations in each division. At the same time, with regard to 2), we have established a risk management structure to handle emergency situations, review its structure regularly, and conduct emergency drills. We will reinforce our risk management capabilities from a Business Continuity Plan (BCP) perspective.

● For contingency planning, see page 35.

#### Outline of Kao's Risk Management Policy

Priority of risk management and response	<ol style="list-style-type: none"> <li>1. Respects of Human lives</li> <li>2. Environmental conservation</li> <li>3. Continuation of operations</li> <li>4. Protection of assets</li> </ol>
Corporate Framework for Daily Risk Management	
Risk Management Activities by Division Manager	
Action to take when a Risk occurs	

# More reliable corporate activities through stricter compliance

Kao performs corporate activities, seeking to be an honest and exemplary company, guided by sensible and fair actions and driven by fundamental adherence to ethical principles that go beyond mere compliance with laws to earn the true respect of society.

## Stricter compliance structure

### Compliance Committee activities

Kao established the Compliance Committee chaired by the Chairman of the Board of Directors, consisting of the representatives of relevant divisions and affiliate companies in Japan. The Compliance Committee, held every six months, draws up and revises the Kao's Business Conduct Guidelines, develops compliance programs and action plans, reviews and checks out how the opinions and consultations given by employees are dealt with, and eventually presents reports and makes proposals to the Board of Directors.

### Revision of the Kao's Business Conduct Guidelines

Kao revised its Corporate Ethics established in 1997 into the Kao's Business Conduct Guidelines in 2003 aiming at more effective compliance. A company-wide briefing was given for the 2003 revision, for which every employee submitted a written oath.

In June 2005, the Kao's Business Conduct Guidelines were revised, taking into consideration Nippon Keidanren's (The Japan Business Federation) revision of the Charter of Corporate Behavior, social demand for greater CSR, and our participation in the United Nations Global Compact.

● [For Kao's Business Conduct Guidelines \(2005 revision\), see page 55.](#)

### Compliance consulting

To deal with complaints about illegal or unethical conduct, Kao makes compliance consulting available to Kao Group employees in Japan through the Compliance Committee

secretariat staff and also through designated external specialists, including lawyers. To keep employees informed about consultations, "Compliance Help Cards" are distributed to everyone. To reassure employees and attract them into consulting, careful attention is paid to keeping the information about counselees and informants confidential, and unfavorable treatment for counselees and informants is prohibited.

As most of their concerns are related to their working atmosphere such as relationships with persons they work with, it is important to improve counseling methods and also to improve leaders' management skills in dealing with their staff. In June 2005, we also made our counseling service available to our stakeholders outside Kao.

### Compliance training

We conduct periodical compliance training programs at various opportunities, including management seminars organized by Human Capital Development Division. Following legislative enactments or amendments, internal law experts hold seminars as required. In fiscal year 2004, seminars were held about Act concerning Protection of Personal Information, Act against Delays in Payment of Subcontract Proceeds, etc. to subcontractors, Securities and Exchange Law, and Copyright Law.

To promote all employees' awareness and study of compliance, case studies of other companies are periodically published via the intranet. Employees' inquiries made to the Compliance Division and the answers thereto are also published via the intranet.

### Identification of law experts

It is very important for every Kao divisions to understand legislation related to their businesses. Persons specialized for relevant legislation are designated at the respective divisions and registered as law experts. As of the end of March 2005, there are 322 experts registered for 232 legislations so as to cover the inter-division roles described on the right. As more legislations are established or revised, more inquiries are being made to these experts. In March 2004, an internal regulation system was established on the intranet to facilitate legal experts' tasks so as to examine relevant regulations.

### Roles of legal experts

- Give counseling and advice to employees
- Monitor legislative amendments
- Update internal regulations according to legislative amendments
- Promote legal compliance
- Conduct audits or request divisions in charge to conduct audits



Topics

### Compliance audits and monitoring

Compliance audits and monitoring are periodically conducted such opportunities as described below, and results are analyzed to improve daily business activities.

- Moral survey (to all employees)
- Self-diagnosis for the divisions to which they belong (by Compliance Committee members)
- Self-check exercises for compliance practice (by training seminar participants)

### Information security management

In October 2003, Kao established its Information Security Policy. Based on this policy, the Guidelines on Handling Trade Secret Information, Guidelines on Handling Personal Information, and IT Security Guidelines were aligned. Furthermore, an information security management was conducted by the Committee for Promoting the Protection of Trade Secrets and Personal Information, divisional member for protection of Trade Secrets and supervisors for administering personal information.

Drills are held from time to time according to response

material in case of emergency. When Kao engages contractors for businesses related to the Internet or personal information, audits are performed on such contractors beforehand.

### Personal information protection

Kao retains a large amount of personal information concerning applicants for product campaigns, product monitors (i.e. questionnaire respondents, product testers, etc. for product development), and counselees of the Consumer Communications Center. Such personal information is an important asset of the consumer themselves, not only for our business activities. To ensure secure protection, Kao makes intensive efforts to prevent any information from leakage pursuant to the Ministry of Economy, Trade and Industry's guidelines.

Justifying the trust of those people who kindly provided us with their personal information, we at Kao continue to strive for employees' awareness promotion, systematic responses, and the careful supervision of contractors. Also we securely protect the personal information of Kao employees pursuant to the Ministry of Health, Labour and Welfare's guidelines.



● Compliance help cards



● Compliance training session

### Efforts to protect personal information

Guidelines for Handling Personal Information and IT Security Guidelines established.

Trade Secret & Privacy Information committee and the Division of Controlling IT Security established.  
Personal Information Controller assigned to relevant divisions.

Training and awareness promotion sessions held for supervisors and persons dealing with personal information.

Agreements executed with contractor with regard to the handling personal information and audits conducted with such contractor.

Access to personal information limited to the minimum number of authorized personnel. Access log system established. Safety management measures taken. All those are to prevent leakage and loss of personal information.

Measurement of inquiries and requests for disclosure of the personal information that Kao retains.

# We make company-wide efforts for quality assurance under the motto “Consumer to Decide on the Quality of the Products”.

Kao promotes total quality management activities from the consumers’ point of view considering every stages from their choice and use of products to their disposal, so that consumers can use Kao products securely.

## Checking product quality in the product development stages

Kao’s products are used in various situations in consumers’ daily lives. At product development, we check the functions, performances, and ease-of-use of products from the results of repeated field trials and from the opinions of product testers. We further check the quality of raw materials, containers, packaging materials, and finished products, assuming various situations from purchase, usage to disposal.

The ground for such efforts is our motto “Consumer to Decide on the Quality of the Products”.

Kao runs a number of assessment meetings (Product Safety, Microbial Control, Packaging, Quality Improvement, etc.) that cut across the entire organization at each stage of the process before a product goes on the market. These groups expansively cover the Business Divisions, Research & Development Division, Production & Engineering Division, Purchasing Division, Quality Management Division, as well as Consumer Relations Division. Thus, we strictly assess our product quality in terms of raw materials, usage, labeling, and CSR so as to obtain consumers’ trust and support in marketing.

### Policies for quality management activities

1. To contribute to the wholehearted satisfaction and the enrichment of the lives of people globally, we must listen sincerely to what the consumer says about Kao products, and use the information for our business activities to improve their quality.

Consumers/customers decide on the quality of the products

2. We work unceasingly across the entire organization to improve and maintain product quality so as to encourage consumers/customers to remain loyal to our products.

Providing products that users wish to continue to use

3. Responsible for development of safe and eco-friendly products, we ensure safe usage for consumers/customers, providing appropriate information i.e. instructions regarding proper use, cautions, etc.

Ensuring safe usage for consumers/customers

4. We comply with laws and regulations at home and abroad for all business activities and fully cooperate with central/local governmental measures and international arrangements.

Legal compliance

5. We raise each individual’s awareness of respective responsibility, consistently engage in fair and open business activities, and assume accountability for improved reliability.

Transparency and accountability

## Confirm safety by our own strict standards

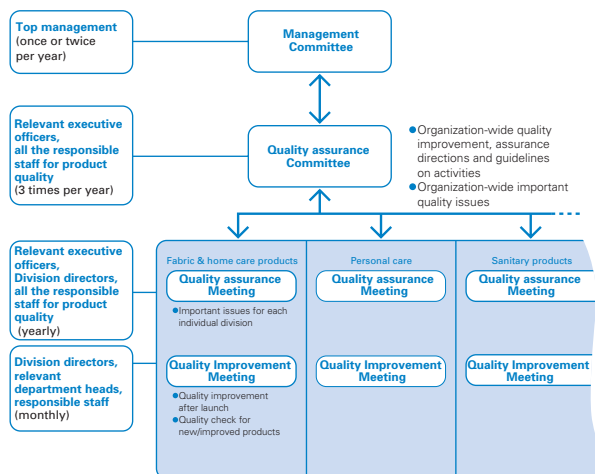
To decide and confirm appropriate safety for human health and environment, we at Kao have drawn up the Kao Safety Assessment Standards for Products and Materials to enact our own strict standards and assessment procedures. Here we describe the approach Kao takes to evaluate safety and the criteria used to select raw materials. Strict safety assessment and confirmation are conducted pursuant to such standards.

Assessment procedures and methods are prepared for each product category, and the Safety & Microbial Control Research Center, an independent internal organization separate from product development, carries out safety assessments for all the raw materials we use and the products we make. After discussions at the relevant safety assessment meeting mentioned above, only those products that are confirmed to be safe for human health and of minimum environmental impact are marketed.

### Basic principle to safety assessment

- Assess and ensure the safety of both raw materials (the composition) and the finished products.
- Assure safety to human beings and the environment in relation to products under normal conditions of use and foreseeable misuse.
- Use the most innovative technologies and expertise available at the time of assessment.
- Discuss and confirm legal compliance and product safety from the social science perspective.

### Kao’s quality Management System





## Commercial production after “zero batch”

Kao calls the first production of a product run after trials have been completed a “zero batch”. The “zero batch” is subject to quality inspection and stability tests in storage, transportation and usage. An inter-departmental committee with representatives across the organization evaluates the results, and if it finds that there are no problems with the zero batch, commercial production then begins. Kao has also introduced ISO9000 Series quality control systems. Kao also sets its own internal regulations for insect and bacterial controls and raw material management. Other efforts include the QC Circle activities (Group activities on Quality Control) to encourage the participation of all relevant employees.

## More user-friendly product labeling

Product labeling is an essential factor to ensure that the consumer can select the correct product and use it safely and with confidence. Kao obtains the clearance from the Consumer Relations Division for labeling before products are placed on the market, with the aim of providing information in a form that the consumer can readily understand. Labeling also carries appropriate warnings of the potential effects of the foreseeable misuse or inappropriate use of products as assessed and checked by Kao. The labels carry warnings about the nature of any danger, how to avoid it, and what to do in case of emergencies. We flexibly study and review the labeling in accordance with inquiries from consumers.

## Unceasing company-wide quality improvement activities after product release

Once a product has been put on sale, Kao sincerely listens to what its consumers say for quality improvement. The Kao ECHO System is a database of information from such communications with consumers. It is used throughout the organization in order to make Kao products even better. When any issues arise, the departments involved will investigate improvements, always aiming to produce better quality products.

## Promotes development of alternatives to animal testing

As for animal protection, Kao is engaged in developing alternatives to animal testing for skin irritation and sensitization, as well as eye irritation. In tandem with its own efforts, Kao works with the government and other companies in its development activities, and makes public study results by presenting them to academic societies or in academic journals. In 2000 and 2003, Kao received the Golden Presentation Award from the Japanese Society of Alternatives to Animal Experiments.

### Quality assurance of food and beverages with health functions

Kao has manufactured and marketed professional-use cooking oil since 1928. Kao is aiming at contributing to people's healthy lifestyles and pleasant food choice, pursuing both taste and scientifically-verified functions. To this end, Kao is earnestly engaged in quality assurance to ensure the comfort and trust of consumers/customers.

#### Pursuing effectiveness and safety

In the development of food and beverages with health functions, we at Kao first conduct sufficient investigations on the safety of the materials. We then patiently work on studies and research on bioscientific aspects and raw materials as well as clinical testing in terms of nutrition, metabolism, and unhealthy weight gain so as to discover new potentials in materials. Welcoming external nutritionists, physicians, and other experts, we conduct repeated assessments on effectiveness and safety, publishing the results at academic meetings and so forth.

### Food for specified health uses and GRAS

Most of Kao's food products are screened and approved as Food for Specified Health Uses, of which the functions are scientifically verified by the Ministry of Health, Labour and Welfare. Diacylglycerol, a major ingredient of *Econa Cooking Oil*, was highly evaluated by the lipid nutrition and toxicology experts in the United States, resulting in its addition to the Food and Drug Administration (FDA)'s Generally Recognized As Safe (GRAS) list.

#### Quality assurance from raw materials, processing, to distribution and traceability

Kao chooses raw materials for its food products after confirming their suitability in terms of product specifications, composition, legal compliance, and quality controls, by tracing them back to their origins and cultivation. Kao makes all possible efforts to thoroughly control the manufacturing process, following the Hazard Analysis and Critical Control Point (HACCP) system for food safety and quality control, particularly for product freshness during distribution. As for marketed products, attention is paid to improve traceability to track down the histories of manufacturing and distribution as well as improvement of technologies for product examination and analysis.

## Topics

# We are promoting environmental conservation, disaster prevention, occupational safety and health based on the idea of Responsible Care.

Kao is engaged in comprehensive environmental management for environmental conservation, disaster prevention and occupational safety based on the idea of Responsible Care (RC), which is independent management activity in the chemical industry.

## Promoting RC activities using the PDCA cycle

As a framework for environment, safety and health management, Kao conducts five types of activities i.e., environmental conservation, process safety and disaster prevention, occupational safety and health, chemicals and products safety, distribution safety, and conduct dialogues with society in relation to the said five activities respectively. Research & Development, Production & Engineering and other divisions work actively for RC. The Committee for Responsible Care Promotion supports the relevant divisions as an inter-departmental organization.

### RC management system

Responsible Care (RC) activities are conducted according to the set annual schedule based on the PDCA (Plan, Do, Check and Act) cycle, aiming at improvements year by year. An internal audit takes place in October to review and track the progress against the plan and confirm that key tasks are on target (Check). In December, the annual meeting of the Committee for Responsible Care Promotion is held with the company management to determine the overall policies and targets of the next fiscal year for the entire Kao Corporation (Act). Each division then sets new, improved targets for the next year (Plan) based not only on these company-wide policies and targets, but also on the results of a self-evaluation. Then, new activities can be conducted (Do) from April.

### Policies Regarding the Environment and Safety

- 1. Maintain employees' health and safety and improve operational safety
- 2. Develop products with attention to the environment and safety
- 3. Save resources and energy and reduce waste
- 4. Promote human safety in the community and take a responsible approach to environmental conservation
- 5. Comply with laws and internal guidelines
- 6. Provide adequate training
- 7. Conduct evaluations and improve credibility in the community
- 8. Disclose information and improve credibility in the community

● See page 59 for details.

## More expansive internal audits

In fiscal year 2004, expansive internal audits were undertaken widely at Kao affiliate companies such as Kao Hanbai Co., Ltd., Kao Logistics Co., Ltd., and Kao Cosmetics Sales Co., Ltd. as well as at Kao's Production & Engineering, Research & Development, Business, and Corporate Staff Divisions. Audits were performed to check whether the PDCA cycle was working effectively. The Production & Engineering Division was recognized for its progress in the PDCA cycle and its performance of activities is also audited.

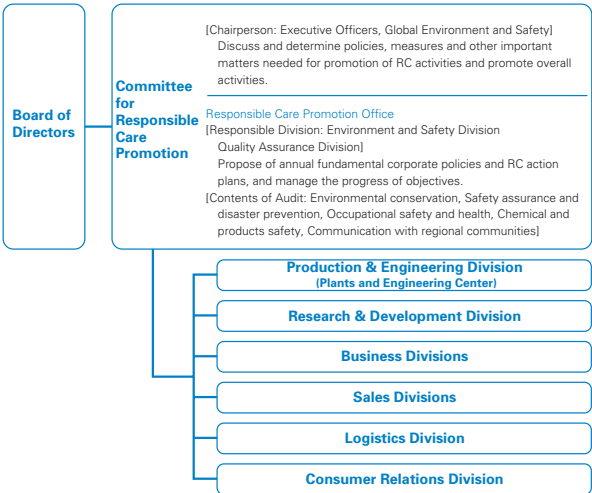
Audit results showed no significant failures, but some issues were found to require continued monitoring. We discovered that RC activities had spread throughout Kao's own divisions while affiliate companies still needed some improvements. Therefore, we are further promoting RC activities in 2005, particularly at organizations that need to catch up with others.

● Results of internal audit, see page 59.

## Continuous environment and safety education

Kao continuously educates its own employees and the staff of its business partners based on the ISO management system and occupational safety and health management system in its RC activities. Education and awareness promotion for RC activities are promoted by divisional supervisors, while in the Production & Engineering Division the supervisors of environment and safety issues in each

### Organization for Environment and Safety Issues



factory are also responsible for educational programs. Self-learning environmental education tools (e-learning) are also available on the intranet. In the Production & Engineering Division, where environment and safety education is indispensable, various sessions are held for different levels of personnel. Quite a number of engineers and operators from overseas manufacturing centers participate in the sessions.

- For educational sessions at the Production & Engineering Division, see page 59.

## Sharing information using the environment and safety database

Kao consolidated all its environment and safety information into a single database that could be used to share data among all divisions to increase reliability and transparency of such data. The database was named “*Kanchan*” (the Environment & Safety Data Management System), and it stores data about environmental impacts and occupational/industrial accidents. The system is equipped with an automatic computation system for calculating the amount of greenhouse gas emissions and the frequency rate of accidents at work.

The environment database became available in fiscal year 2003 at domestic plants, then in fiscal year 2004 at Kao affiliate companies in Japan such as Kao Logistics Co., Ltd., Kao Hanbai Co., Ltd., Kao Cosmetics Sales Co., Ltd., Kao

Professional Service Co., Ltd. as well as at 10 plants at our overseas affiliate companies in China, Taiwan, Thailand, Malaysia, Philippines, Vietnam, and Indonesia. Although we have not yet compiled data on all operations throughout the world, we continue our best efforts to establish a database covering the entire Kao group.

## Eco-efficiency index

Following our participation in 2003, in fiscal year 2004, Kao participated in the JEPIX forum, which is engaged in the establishment of an environment management index, the Japan Environmental Policy Index (JEPIX).

In fiscal year 2004, aiming at extending the JEPIX assessment method to other companies, a simplified assessment sheet was devised and announced in order to promote integration into the number of companies such as SMEs. The integration coefficient for greenhouse gases was revised so as to assess environmental priorities in more accurate form.

Assessment of Kao's environmental impact by the simplified assessment sheet showed an increase in Eco-points for environmental impacts between fiscal year 2003 and 2004 and a slight decrease in the eco-efficiency factor. This was mainly due to increased production creating an increased amount of greenhouse gas emissions, while added values did not grow as expected due to the drop in product retail prices. Further improvements in integration coefficient are required, and to this end, tests are continuing for full-scale operations. Eco-efficiency and its factor are calculated by the formula shown below.

$$\text{Eco-efficiency} = \frac{\text{Value added amount (Economic indices)} / \text{Eco-point}^* \text{ by JEPIX method}}{\text{Factor} = \text{Eco-efficiency of particular year} / \text{Eco-efficiency of 2000}}$$

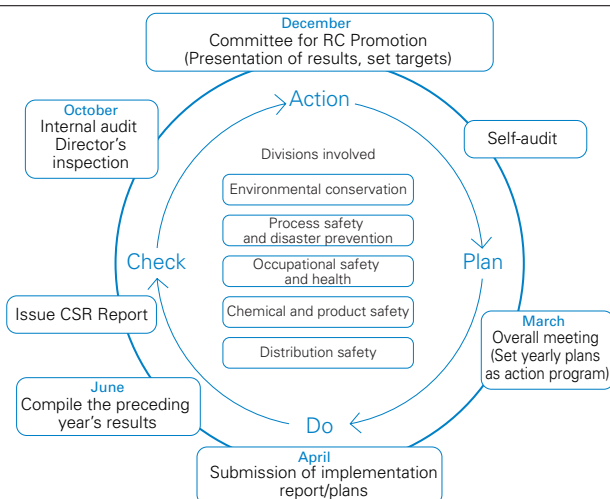
Calculation of Eco-point: Sum total of the respective Eco-points by JEPIX method, calculated for core indexes of CO<sub>2</sub>, SO<sub>x</sub>, NO<sub>x</sub>; amount of soot & dust emissions; final disposal amount of waste; amount of COD emission and amount of subject chemicals for PRTR emission shown on the guideline of environmental performance indices.

\*Eco-point: Combines a variety of environmental impacts generated in production activities into one index using the JEPIX method to show how the environment is affected.

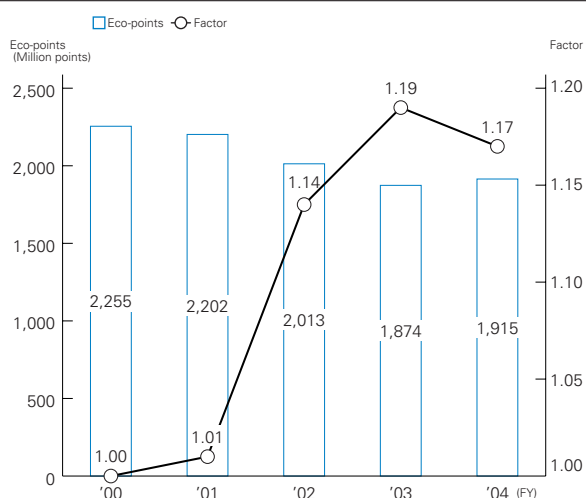
- JEPIX forum: <http://www.jepix.org/index.php>

## Topics

## Annual Schedule for RC Activities



## Trends in Eco-points and Factors



# Our Stakeholders

## Promoting fairness and transparency in our business activities through communications with a variety of stakeholders

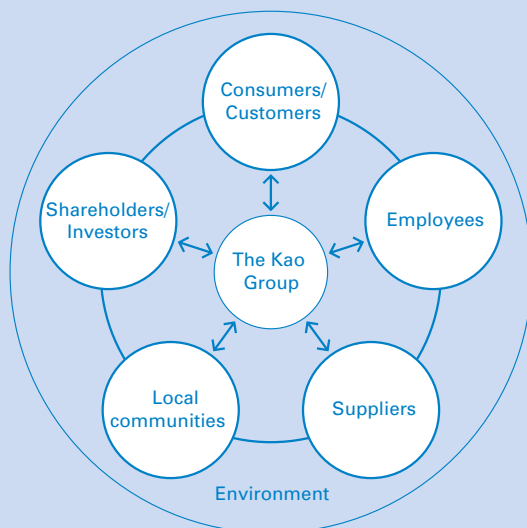
The Kao Group's business activities are developed based on relations with diverse stakeholders. Financial resources for business activities are generated from the prices that consumers/customers pay for Kao products. Our customer include chemicals manufacturers for which Kao supplies raw materials and finished products, as well as restaurants, hotels, and hospitals. To deliver our products to consumers, we cannot do without help of our wholesalers and retailers. Our employees produce the products and run our organizations, and they in turn are supported by their families. Suppliers all over the world provide us with raw materials. In engaging in business activities, it is indispensable for us to have the understanding of the residents living in the neighborhood of our offices and plants and of local governments as well as the cooperation of our industrial partners. Environmental conservation and chemicals management are common issues within the industry, and Kao is enthusiastically involved with these matters. Profits made from our business activities are shared with our shareholders and investors as well as being invested in developing new products to raise consumer/customer satisfaction for further profitable growth.

As stakeholders of daily commodity provider, such as Kao, are actually product consumers in many cases, we at Kao constantly strive to keep consumers' needs in mind and undertake fair and sincere actions in all aspects of our business activities. We believe that focus on environmental conservation is the ground for sound business operations.

We would like to continue diverse means of communications with our stakeholders, whose opinions and requests are of great value in our business activities. We thus promote CSR efforts through further information disclosure to keep our operations transparent.

### The Kao Group and Stakeholders

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## Kao Stakeholders

Stakeholder group	Kao's approach	Major communication methods	Major communication tools, including publications	For more details
<b>Consumers/ Customers</b>	Kao determines consumer and customer needs to provide products and brands that bring satisfaction and joy. The products we develop are not only functionally superior and emotionally appealing, but also safe, reliable, of minimal environmental impact and easy to use, regardless of the user's age or ability. Moreover, we back them up fully with accurate product information.	<ul style="list-style-type: none"> <li>● Consumers Consumer consultation support (by telephone, letters, e-mail, etc.), the <i>Relief-fureai</i> call service (telephone counseling for nursing care), Home visits to product testers, Group interviews</li> <li>● Customers (clients/retailers of chemicals and professional-use products retailers) Information exchange at business meetings, Retailers' gatherings, and Extranet</li> </ul>	"Kao Consumer Communication Center Activity Report" Product information on the Web site Product leaflets "Kao corporate profile"  Industrial-, professional-use product information on the Web site "Kao Chemical Forum"	P.28
<b>Employees</b>	Kao respects the human rights, individuality and diversity of its employees, and maintains a safe, pleasant working environment. We support our employees' efforts to maximize their individual capabilities through work by fairly evaluating their performance and providing adequate opportunities.	Employees' moral surveys, Interviews with supervisors, Help line, Mental health counseling, Labor-management communications, Employees' Welfare Committee, Health and Safety Committee, Company events	Intranet In house publications: "Tenite", (in-house health insurance journal) "Kao Family", "Kao Video Report", "Kao News Quarterly"	P.32
<b>Suppliers</b>	Kao strives to be fair and transparent in all of its transactions. We work together with our business partners to enhance supply chain management while cooperating to deal with and improve our responses to social issues such as environmental protection and human rights.	Quality improvement meetings, Regular discussions, Suppliers satisfaction surveys	Green procurement criteria	P.40
<b>Local communities</b>	Kao's responsibilities go beyond simply complying with laws and paying taxes. We strive for active interchange with the local communities in which we operate, giving full consideration to issues such as environmental protection and human rights. By doing so, we contribute to the development of each community as an integral member.	Communication events with the neighbors (e.g. summer festivals), Plant tours, Exchange meetings with NPOs, Support for social contribution activities	Social contribution activity information on the Web site "Kao social contribution activities"	P.36
<b>Shareholders/ Investors</b>	Kao earns the support and trust of its shareholders by raising corporate value through profitable growth. We achieve this by further building existing businesses, nurturing new ones and expanding overseas. Moreover, we strengthen and enhance corporate governance while strictly managing information and assets.	General shareholder meetings, Analyst meeting, E-mail (newsletters), inquiry contact on the Web site	IR information on the Web site "Business Report" "Annual Report" "Financial Statement"	P.41
<b>Environment</b>	Kao promotes measures to counter global warming and works to realize a recycling-oriented society through its "Three Rs" initiative. In addition, we focus on appropriate management of chemical substances from raw materials to disposal.	Meetings to read the Environment, Safety and Social Report, Consultations with consumers	"Environment, Safety and Social Report" Approaches to environmental issues on the Web site	P.42



# We are actively communicating with consumers, whose opinions and ideas are made good use for product development and in our daily business activities.

We at Kao study consumers' needs, and combine these with original research and development seeds to release innovative products and brands. We also make as much time to talk with consumers as possible, and made good use their opinions and ideas for product development and other business operations.

## Product development from the consumers' point of view

We nurture a consumer-oriented corporate culture by carrying out our daily activities from the consumers' viewpoint and prioritizing how to better serve consumers.

Our Business Divisions in charge of product development and marketing strive to understand consumers' needs in relation to our products. In addition, we undertake group interviews and home visit surveys to directly listen to consumers' opinions, monitor their lifestyles, and attempt to determine potential needs that consumers are yet to even recognize themselves.

## Promoting consumer relations and responding to changes in their needs

According to the amendment of Consumer Protection Fundamental Act as of May 2004, business entities are required to disclose their corporate information and act ethically, while consumers are also expected to acquire knowledge to protect their own rights. The socioeconomic situations surrounding consumers and business entities are thus changing drastically.

More male consumers and elder customers are now making inquiries about Kao products while inquiries about

product safety and advertising are also on the increase. Such trends reflect the changes in consumers' awareness.

A summary of their inquiries has been made available in the Kao Consumer Communications Center Activity Report.

Encouraging consumers to obtain proper knowledge about products, we disseminate product information in an easy-to-understand way on labeling, in advertisements, as well as on our Web site.

Business entities are being exposed to more demanding consumer relations year by year. Kao periodically conducts consumer satisfaction surveys for consumer relations, and their feedback is also used to make improvements in daily customer support services.

## Product improvements driven by consumers' feedback

Consumer Communications Center receives around 500–600 calls a day, and approximately 120,000 contacts (including e-mail and letters) a year. Under the motto "to be accurate, rapid and kind", it deals with each consumer inquiry from the consumer's point of view. Discovering any issues from such calls in our products and services, relevant divisions such as the Business Divisions, Research and Development Division, and the Production & Engineering Division work together to improve product development and their business activities. Numerous opinions from our consumers have helped improve our product performance, containers, labeling, and advertising (see below).

## Product improvements based on consumers' opinions



### Improvements in refill package design

Responding to the complaints that the refill is similar to another product refill, the refill package design was changed to an easy-to-choose one with the picture of the bottled product.



Shampoo (with notches)

Conditioner (without notches)

### Improvements in shampoo/conditioner containers

Responding to requests from the customers with difficulties in vision, in 1991 we first put notches on shampoo containers to easily tell the shampoo from the conditioner.

## Kao Echo System

Kao Echo System supports consumer relations mainly by two functions: the consultation support function deals promptly and properly with any comments from consumers by the data stored; the consultation information analysis function stores comments from consumers in the database and analyzes inherent issues. Kao staff throughout the company can easily access and analyze this information via the intranet.

In January 2005, the system was drastically updated for quicker information search and improved security for protecting the personal information of inquired consumer.

## Awareness promotion for corporate efforts for consumer affairs

Kao participates in seminars organized by the Association of Consumer Affairs Professional (ACAP). In fiscal year 2004, we gave lectures on the theme “Kao’s consumer relations: making use of customers’ opinions for Yoki-Monozukuri” at two universities, where around 700 students could raise their awareness of consumer affairs.

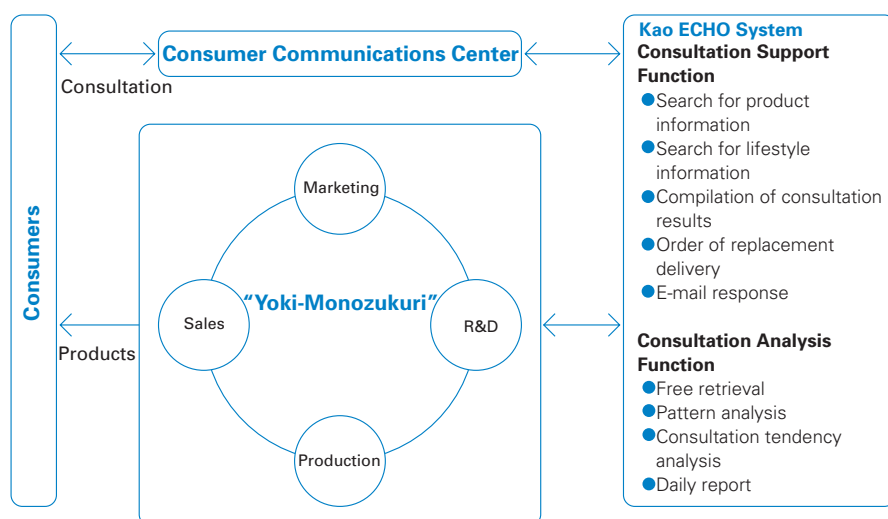
We as Kao would like to further promote communications with consumers utilizing such opportunities outside the company.

## Releasing information useful to consumers on the Internet

Accompanying the spread of the Internet, more consumers are now willing to seek and find the information they want by themselves, in addition to asking directly to the company involved. We at Kao post the frequently asked questions (FAQs) on the Kao product consumer contact page on our Web site. In addition to FAQs about products, we post various information such as how to solve laundry problems, what you should do in the event of accidental intake of products, and the safety of ingredients contained. We also release timely information about topics that consumers have expressed any interests.

- Kao product consumer contact site (Japanese only)  
<http://www.kao.co.jp/soudan/>

## Kao ECHO System



● Lecture on consumer relations outside the company

# We are working with corporate customers to pursue improvements in quality of life for people.

Corporate customers include user companies of our chemicals and professional-use products, and retailers of our consumer products. We consider them as business partners to contribute to the satisfaction and enrichment of the lives of people, in addition to providing them with our products.

## On-site information exchanges based on close relationships (chemicals)

In the chemicals business, Kao provides its corporate customers in various industries with superior-quality products, which include fatty chemicals, surfactants, and functional polymers.

Assuming responsibility for the stable supply of quality products, we at Kao also fulfill responsibility to society by sharing information about assessing and managing chemical safety as well as about legal compliance. As for copier toner and fragrance materials, we visit the sites of corporate customers, where product development is conducted or finished products are used, so as to develop products that meet their particular needs based on strong partnerships with our customers. It is also important for us to provide our corporate customers with information about how to best use our products, not only the products themselves.

## Information exchange via the Internet

The Internet is an indispensable tool to communicate with our corporate customers. Providing detailed information about chemicals, opening up contacts for inquiries, and establishing an extranet with major corporate customers and retailers all enable the interactive and speedy communication of detailed information with them. Development of products, which combines customers' needs and Kao's technological

seeds, the pursuit of customer satisfaction, and coexistence with the nature, all contribute to forming a better relationship with society.

## Thoughtful customer-oriented communications (professional-use products)

Kao provides business entities, stores, and facilities such as restaurants, hotels, hospitals, cleaning shops with professional-use products. Unique products are developed through its expertise in product development and hygiene control system, cultivated by Kao's consumer product business. Technological services and relevant information used for product development are also provided. As customers have different needs in products, services, and information, we are establishing more robust partnerships through closer communications, responding to customers' needs.

## Partnership with the Washington Hotel Corporation

The Washington Hotel Corporation, headquartered in Nagoya, is extensively engaged in business throughout the country, mainly in the western Japan. Driven by the acquisition of ISO14001 certification in 1999—the first hotel business in



Hotel-use dispenser

## Topics

### Comments from Washington Hotel Corporation

In aiming to be an eco-friendly hotel chain, the Washington Hotel promotes environmental conservation activities, focusing on resource/energy conservation, waste reduction, and recycling. Besides adopting shampoo and conditioner dispensers, we ask our customers to bring toothbrushes and razors, and also ask them whether they want to change their sheets everyday if they are staying two nights or more.

We appreciate that Kao understands our environmental policy and gives us strong support. Pursuing comfort and environmental-awareness, we continue to work with Kao to be a hotel chain deserving of our customer's loyalty.

Yoshinori Ogawa  
Managing Director  
Washington Hotel Plaza Division  
Washington Hotel Corporation

the country to achieve this—Washington Hotel developed diverse activities to help promote an increase in recycling in society.

In 1996, Kao made a proposal for an alternative liquid soap/shampoo/conditioner dispenser for Washington Hotel, replacing the previous sachet-type amenities. This new alternative significantly contributed to waste reduction, resource conservation, and cost savings. These dispensers have now been in use at all the hotels of the Washington Hotel group for eight years, and following Washington Hotel group, other hotels came to adopt Kao's dispenser.

In fiscal year 2004, the Kao Hygiene Control System was introduced for all the hotels belonging to the Washington Hotel Corporation. Kao sent its staff to help them at the hotels, giving training sessions at the launch as well as follow-up activities. All of these efforts resulted in prevention of hygiene-related accidents. Furthermore, the choice of appropriate detergents most suitable for the situations saved on water consumption.

In fiscal year 2005, to improve room cleaning effectiveness and reduce water consumption, nationwide cleaning standards are to be established. These efforts endorse the environmental conservation activities underway in the hotel business.

## Consumer services through partnerships (consumer products)

Kao Hanbai Co., Ltd., engaged in nationwide consumer product business, is responsible for customer services for retailers as business partners (e.g. supermarkets and drug stores).

Kao Hanbai provides retailers with Kao products,

encourages retailers to develop, and thus offer better consumer services. To this end, Kao Hanbai is engaged in diverse activities to share information and work together with retailers. Such efforts include company-wide gatherings with retailers for information sharing.

### Contributing retailers to grow

Kao Hanbai calls the sales representatives in charge of stores "Store Advisors" (SAs). SAs are engaged in proposal-oriented sales activities in which information about marketing and sales of retailers is used to solve issues that retailers are facing. The company works with retailers to devise product lineups and displays to meet consumer demands, and effective information offering at shopping floors, from the consumers' standpoint.

Kao Hanbai branches also have product education centers, which provide retailers with relevant information. Staff at these centers explain about the characteristics, performance, usage, and market trends to retailers, who directly contact consumers at stores to foster better communications with them.

### Feedback to spur improvements in Kao's activities

We hold periodic meetings with retailers to share information. Using these opportunities, we provide retailers with new product information as well as proposals for floor layout and marketing methods, while retailers provide us with information about sales of Kao products in their shop and their opinions on consumers' attitudes.

Above all, opinions on products are especially important in feedback for product development, to create and revise the products for better consumer satisfaction. Retailers' opinions on Kao's sales activities are used for better Kao Hanbai operations.

## Partnerships with retailers

Reflects retailer information (consumer information) on improvements in product development and sales activities



Contribution to growth of retailers, who are interface of products and consumers



● Explanation of and information sharing about the products at gatherings for retailers.



# We are respecting for diversity, support for improvement in the abilities and personalities through their work.

Kao has established a corporate culture that provides its employees with a variety of training so that they can improve their abilities through their works. To this end, we promote the Equal Partnership (EPS) program for respecting diversity of all our employees, to ensure that they have equal opportunities to demonstrate their abilities.

## Establishing a corporate culture where willing personnel can be nurtured

The basics of human capital development (HCD) is to establish the win-win relationship between Kao & employees. As the human capital development policies, Kao has developed the HCD system where individual performance result in the organization's success, and realized a working environment and culture, and which integrates our employees' potential into corporate competence.

For alignment with the business needs, Kao provides opportunities training development to employees based on the following our Training policy:

1) We provide high-quality educational opportunities for personnel with motivation and ability.

For employees with the motivation and the ability, we provide comprehensive education of a high level and in a planned manner in order to nurture personnel who will be regarded as professionals.

2) We implement basic education in a timely manner as appropriate for the particular stage in each individual's career.

The education implemented contains practical content in the form of knowledge and skills required for job performance, in accordance with an individual's role and the stage in his or her career.

## Summary of Training Programs

	Business Intelligence ( Corporate )	Market Intelligence (professional)	Self-development
Management level	<b>Core Talent Programs</b> <ul style="list-style-type: none"> <li>Advanced Management Program</li> <li>Business Task Study</li> <li>Business Leader Training</li> <li>Outside School</li> </ul>	<b>Advance Course</b> <ul style="list-style-type: none"> <li>Outside School</li> <li>Cross Industrial Associations</li> <li>Professional Schools</li> </ul>	<b>Self-developed</b> <ul style="list-style-type: none"> <li>English</li> <li>PC skills</li> <li>Business Skills</li> <li>Acquisition of Qualifications</li> <li>Corresponding Education</li> </ul>
Core Middle level	<b>Management programs</b> <ul style="list-style-type: none"> <li>Human Resource Management</li> <li>Career Support for Middle Staff</li> </ul>	<b>Global Program</b>	
Entry level	<b>Basic Business Knowledge &amp; Skills</b> <ul style="list-style-type: none"> <li>Before Joining Training</li> <li>After Joining Training</li> <li>Follow-up Training</li> <li>Step-up training (Freshout)</li> </ul>	<b>Promotion Task</b>	<b>Basic Course</b> <ul style="list-style-type: none"> <li>Basic Technical, Knowledge &amp; Skills</li> </ul>

3) We place importance on employees having an attitude of "Learning independently" and we support self-enlightenment.

We provide many different programs for learning knowledge and skills in accordance with an individual's job and role

## Spreading the Kao Spirit

For over 110 years since its foundation, Kao has overcome many difficult situations and established its present status. In June 2003, Kao internally released a book called Continuous Innovation, which summarized the Kao Spirit that has been inherited to the present day. Alongside this release, we also held lecture gatherings at many places throughout the country as opportunities in which our employees were able to learn a lot about the corporate foundation spirit and forerunners' wisdom, understand the real meaning of the Kao Spirit, and share in the concepts that underlie Kao's business activities. By the end of 2004, 112 lecture gatherings were held in total with over 3,300 participants, who were able to learn about the importance of constantly updating new values.

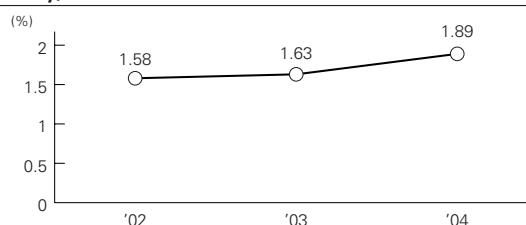
## Aiming at being a company with diverse personnel working actively

The more businesses become globalized, the more extensive abilities and skills are required by employees. Equal

## Number of new hired employees (Kao Group-domestic companies)

		FY 2002	FY 2003	FY 2004
Regular employees	Female	154	39	87
	Male	169	91	131
	Total	323	130	218
Contractor	Female	449	488	700
	Male	27	12	13
	Total	476	500	713

## Ratio of employee of handicapped (Kao Group-domestic companies for which such employment is mandatory)



\*As of June for respective year

Partnership (EPS) activities is encourage our employees to have more diverse potentials. Main focus areas are “Awareness and Readiness of cultural improvement”, “Equal Opportunities”, and “Work and Life Balance”.

As for “Awareness and Readiness of cultural improvement”, Kao strives to encourage employees to accept opinions that are different from one’s own, create an atmosphere in which employees can talk freely, and make the workplaces more comfortable and fulfilling and without discrimination or harassment.

### Anti-harassment Education

In addition to continuous countermeasures against Sexual/Gender Harassment, in fiscal year 2004, Kao started the prevention of Power Harassment\* and promotion of 2way communications between managers & members. Steered by the EPS Promotion Committee, we held over 60 training sessions nationwide for senior and middle management. Kao continues these efforts and encourages the participation of all employees.

\* Harassment by a person in a position, such as boss etc.

### Providing Equal Opportunities to female employees

Kao has made its best efforts to hire female employees, and given career opportunities, especially those with aspirations and abilities. As a result, job categories and recruiting ratio of female employees has increased. As such, we accelerate to give our employees borderless opportunities in performance/career development regardless of gender, nationality, and age.

### Employment of handicaps

Supporting “Living and working together”, Kao promotes the employment of physically-handicapped people. In fiscal year 2004, the recruiting ratio in Kao Group’s domestic companies, for which such employment is mandatory,

reached 1.89%. Employees voluntarily organize the sign language groups for better understanding and communications with the employees of handicapped.

### Efforts for “Work and Life Balance”

Since the late 1980s, Kao has been encouraging to take a healthy balance between working and private lives. Kao’s basic policy is “Establish an environment that encourages our employees to optimize their abilities, develop their own career and achievements by eliminating negative factors except performance”. Based on this basic policy, we give employees a variety of options to suit their different priorities and situations. Every employee faces different situations with which they have to deal, especially for child & adult care. Kao encourages employees in such situations by trinity approach. Employees, supervisors, HR work together, to seek the most suitable measures and makes appropriate schemes available. Such support includes holding interviews with employees before and after they take leave, and also providing support during the leave time.

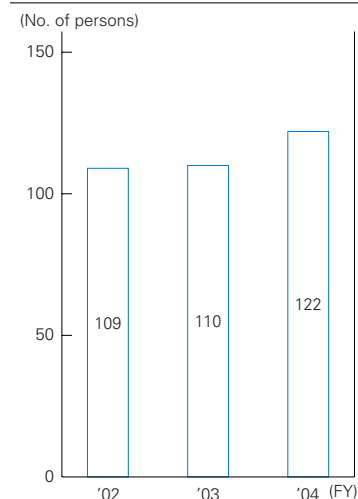
As a result of these efforts, our employees are now able to make use of our these supporting system and come back to work easier. Merries Hiroba, an integrated Web site on the company’s intranet contains useful information about pregnancy and childcare and has gained a favorable reputation among employees.

### “Find”—Employee moral survey

Every two years, Kao conducts an employee moral survey named as “Find”, across the entire organization. The survey consists of four frameworks: 1) functioning of the organization, 2) extent of dissemination of policies, 3) basic strengths, and 4) level of satisfaction. Employees are asked to respond freely to questions.

The results of the survey are reported to each department, and are used to develop action plans at both departmental corporate level.

**Number of employees using child-care leave**  
(Kao Group-regular domestic employees)



### Winning the Health, Labour and Welfare Minister’s Finest Award for a Family-Friendly Corporation

Kao was chosen as the 2004 Family-Friendly Company. Kao are convinced that we were recognized for our efforts in letting employees choose diverse and flexible working styles to achieve a good balance between work and child-care or family care, and also in paying attention to making the system feasible by fostering the understanding of their co-workers and strengthening assistance schemes. In 2003, the ratio of our female employees using pre-/post-delivery leave reached 100% while 94% took advantage of child-care leave, and 100% came back to work.

#### ● Mr. and Mrs. Ogasawara, who used the child-care system

Mr. and Mrs. Ogasawara, who both work for Kao, stagger their commuting times to bring their child to the day-care center. Mr. Ogasawara said “My co-workers kindly adjust meeting times to my starting time”. Mrs. Ogasawara commented, “After taking the 15-month child-rearing leave, I came back to work. The division I now belong to has established an environment where we can use our abilities within a limited time, taking into consideration the situations that employees like me have to manage; namely, the occasional unexpected need to leave the office early or take a day off, and having to leave the office without working overtime”.



Topics

# We are supporting employees' health management and promoting a safe workplace environment.

Concern for employees' physical and mental health and safety in the workplaces is the foundation of all Kao's business activities. Accordingly, Kao is engaged in activities to promote occupational health care, as well as those targeting zero accidents to ensure a safe working environment and disaster prevention.

## Supporting employees' health management with our unique system

Encouraging our employees to take care of themselves, we at Kao support their health so that they can be physically and mentally healthy and be comfortably engaged in their work.

The annual health checkup program consists of the following aspects: 1) answering health-related questionnaires and taking a health checkup, 2) counselling of the corporate medical doctor, 3) setting health care goals, 4) making efforts to change or improve their lifestyle habits, and 5) reviewing how much lifestyle habits have been improved since the previous year's checkup. This program encourages all employees to maintain and improve their health by themselves. In fiscal year 2003, Kao established "Genki-kun", a health support system, that enables relevant data, including employees' answers to health-related questionnaires and checkup results, to be posted on the intranet confidentially. This is expected to promote employees' health-consciousness because through this system they are able to understand and monitor their own data in chronological sequence, and to confirm the goals that they set. In this way, Kao endorses employees' health management.

### Helping to improve lifestyle habits

Focusing on preventive measures, we encourage our employees to change or improve their lifestyle habits. We provide employees with various opportunities for this

purpose, including events and seminars, and thereby promote their health-consciousness.

### Mental health care

As an increasing number of people feel stressed due to their jobs and social lives, we pay special attention to the mental health care of our employees, holding mental health seminars for supervisors at offices and plants. We also welcome complaints and questions from our employees about the pressures they feel at their workplaces and their job-related worries. In July 2004, with the support of an external specialist we opened our Mental Health Counseling Hotline.

### Promoting smoking restrictions

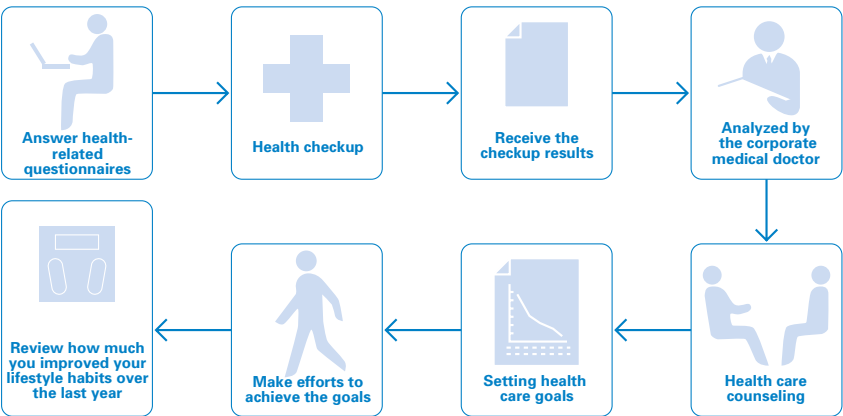
Kao has strengthened its smoking restriction efforts by creating smoking booths at all our offices and plants.

## Company-wide occupational safety measures

### Disasters and accidents and our responses in 2004

In 2004, the number of accidents suffered by the Production & Engineering Division and the Research & Development Division that actually caused work to stop decreased by approximately 30% from 2003. In 2004, the members of the Safety Group of the Production & Engineering Division worked with relevant personnel at the plants where accidents happened, took diverse countermeasures, and reminded employees about safety awareness.

### Kao's health management cycle



### FY 2004 Kao employee health checkup results

Percentage of employees undertaking checkups	99.9%
Percentage of employees who received counseling after the checkup	78.5% *

\*Ratio of the number of the employees who received counseling among employees who undertook checkups

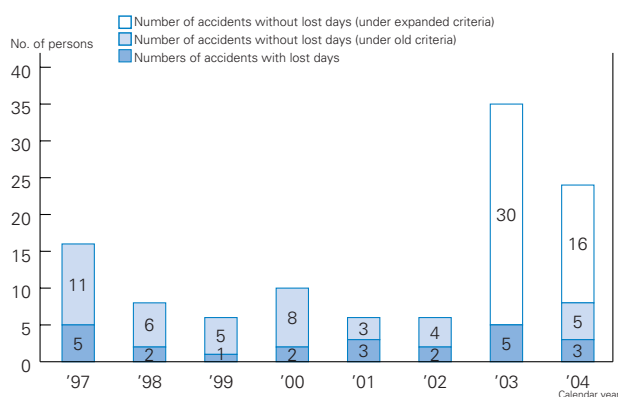
Regarding the Business Divisions and the Kao Group companies in Japan, including its affiliate companies responsible for sales/distribution, 108 employees suffered from occupational accidents in total, including 38 employees who had to have lost days. In 2005, we are reviewing rules, machinery and equipment, and conducting risk assessments on the workflows of Kao Logistics Co., Ltd., which experienced several accidents.

There had been no serious accidents at any of our plants in the last ten years. Unfortunately, in 2004, we failed to continue such achievements due to two minor fires and one minor explosion. However, no employees or neighbors suffered injuries, and no delays in production were experienced thanks to our quick response. Aiming at complete elimination of such accidents, we carried out checks at all facilities, as well as those suffering problems.

### Risk assessments

Kao is planning to complete risk assessments for machinery and equipment at all our plants by the end of fiscal year 2005. As accidents happened at facilities for which risk assessments had been conducted, we are reviewing our safety rules within fiscal year 2005 pursuant to ISO12100 in order to take preventive measures for the machinery and equipment we own, as well as that which we are going to acquire. For a safer workplace environment, we are also planning risk assessments to cover our workflows.

### Trends in Numbers of Employees Injured in Production & Engineering/Research & Development Division



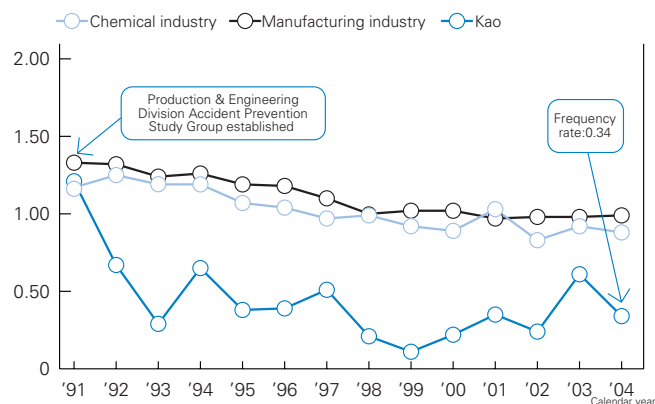
In 2003, Kao expanded the criteria for defining "accidents without lost days" to include accidents that were not previously regarded as such.

### Promoting the establishment of an emergency network

If a large-scale earthquake or other disaster breaks out in Japan, we should be able to accurately monitor and quickly update information on Kao group employees. To this end, Kao has established a Personnel Safety Information Registration system based on the telephone line. The system started operation in January 2005. We will promote employees' recognition of registration action to be taken in case of emergency and consider how to make more effective use of such information at the disaster countermeasures office and field offices.

Satellite phones have been made available at major sales/distribution centers, in addition to the Kao offices and plants. In November 2004, we conducted company-wide communications training, simulating the occurrence of a Tonankai Earthquake that is one of those predicted in Japan, together with a comprehensive nighttime drill at the Wakayama Plant. In the meantime, the Production & Engineering Division improved the earthquake-proof structure of its buildings. As for our affiliate companies, we checked and listed the buildings requiring surveys, taking the construction year into consideration. At our offices, we have also taken measures to prevent lockers and other fixtures from falling, and continued various earthquake-resistance surveys.

### Trends in Occurrence of Occupational Accidents (Frequency rate\* more than 1 day leave)



Both occurrence rate of accidents with lost days and occurrence rate of all kinds of accidents declined, from 0.61 to 0.34, and 4.24 to 2.73, respectively.

\*Frequency rate : Numbers of deaths and injuries due to labor accidents per million hours worked



# Kao assumes responsibility as a corporate citizen through communicating with local residents in order to contribute to the development of communities.

Kao has proactively promoted communication with residents living near its offices and plants in an effort to obtain better understanding of those people about our activities. Through these initiatives, Kao strives to contribute to the creation of a sound and prosperous society.

## Obtaining better understanding of local residents through plant tours

Plant tours are available at all Kao's plants across Japan. The tours are aimed to promote the understanding of local residents about Kao's activities, as well as to promote communication with them. Tour participants are neighboring residents, students from elementary schools to universities, and organizations such as neighborhood associations. In fiscal year 2004, we received twenty to thirty thousand visitors. At the Tokyo Plant, we have a small museum (Kao Museum) showing the changes in lifestyle in connection with Kao's products, which has been well received by visitors.

### Open Day for Parents and Children at Wakayama Plant

In July 2004, the Wakayama Plant held an open day for parents and children as a summer special event to promote communication with local residents. About 200 participants—parents and children, who applied to our advertisement in the local paper, toured the plant. They saw manufacturing lines and experiments using detergents, and they received an explanation about Kao's activities and initiatives to conserve the environment.

Afterwards, we received letters from elementary school children who had participated in the event, saying that they had enjoyed the tour very much and were surprised to see many machines operating in the plant. Some children took the tour as a research theme for their summer vacation, and sent us a copy of their reports. We plan to continue these activities as one of the ways to contribute to communities.



● Explanation about Kao products on Open Day for Parents and Children at Wakayama Plant

## Community event participation

### Kawasaki Plant joins patrols on Safe Driving Day and PR activities

The Kawasaki Harbor Traffic Safety Association, comprising 76 member companies—including Kao, carries out traffic safety patrols four times a year, in April, July, September, and December. The campaign aims to prevent car accidents by raising people's awareness of traffic safety. Patrols are carried out at major intersections in Kawasaki city.

Four to five companies make up a team to participate in the program. On that day, they are engaged in such activities as ensuring the safety of young children, elderly people, and other pedestrians when they cross intersections and patrols to check compliance with traffic rules and manners. They give advice to people riding bicycles and autobicycles on the safe way to cross intersections.

### Sakata Plant participates in the Energy/Environment Seminar

Sakata Plant took part in the Energy/Environment Seminar held at Sakata Cultural Center in November 2004. The seminar was sponsored by the Central Research Institute of Electric Power Industry and the Nippon Association of Consumer Specialists (NACS). This seminar aims to encourage people to recognize energy and environmental issues as their own responsibility and take actions to address them. Kao was involved in the seminar from the planning stage, as a representative of the community companies.



● Sakata Plant participation in Energy/Environmental Seminar

A lecture on Future Living with Electricity was given by the Central Research Institute of Electric Power Industry. Also, elementary school children made presentations about their efforts to conserve the environment. They reported on their everyday activities such as Growing Green Activities and Energy/Resource Conservation Activities. The participants in panel discussions were elementary school teachers, parents, students of local universities, representatives of local government, and staff from Kao. At this seminar, many people felt that it was a message about energy and environment from children to adults. The seminar was very informative and successful.

#### **Kao Family Concerts by Sakata Plant and Ehime Sanitary Products Company**

Kao holds Kao Family Concerts in the hope of providing neighboring residents with opportunities to enjoy quality music. This is a unique program that integrates commitments to local communities with social/cultural activities.

In 2004, Kao Family Concerts were held in Sakata-shi where Sakata Plant is located, and Saijyo-shi where Ehime Sanitary Products Company is located.



● Kao Family Concert in Sakata

## Topics

### **Community involvement by Kao Brands Company**

**Jenny A. Hudson**  
Kao Brands Company



Kao Brands Company, headquarters in Cincinnati, Ohio, provides premium beauty care brands to the American and European markets to improve the beauty and lives of women.

We believe that it is a corporate responsibility to support not only its consumers and employees but also the community in which it resides. Kao Brands Company supports charitable and citizen organizations engaged in activities that benefit women, such as breast cancer research and domestic violence assistance. In 2004, the company donated about 50,000 dollars to nine organizations, including United Way and American Cancer Society.

### **Community involvement by Kao Corporation S.A. (Spain)**

**Antonio Mateo**  
Kao Corporation S.A. (Spain)



Kao Corporation (Spain) specializes in the manufacture and sale of chemical products for the European market, and has three production bases on the outskirts of Barcelona.

Kao Corporation in Spain supports local arts. For example, in Olesa where one of its production bases is located, the company gives an award to excellent research on the society and history of Olesa, and made a contribution to help establish a music school there. In addition, Kao gave financial assistance to a book publishing project about Mollet, where another manufacturing base is located. The company is also actively engaged in educational activities. It accepts plant tours by local schools, and provides on the job learning opportunities for students majoring in chemistry in cooperation with Barcelona University.

We will continue efforts to build close relationships with local communities, aiming at prosperous coexistence.

# In order to contribute to the creation of an enriched society, Kao has been engaged in social activities with a focus on fostering the next generation.

Kao has contributed to the creation of an enriched society and its sustainable development by engaging in social activities focusing on fostering the next generation. Kao has been involved in many areas, including education, development of barrier-free society, and cultural activities. Highlights of these activities in fiscal year 2004 are introduced here.

## Aiming to foster the next generation, Kao engages in a variety of social activities.

### Kao Teacher Fellowship

Working together with Earthwatch Japan, a specified nonprofit corporation and Japanese division of the international NGO Earthwatch Institute, we have introduced the Kao Teacher Fellowship program. This program offers elementary and junior-high school teachers, who are key persons to foster future generation, opportunities to participate in overseas field research projects (research on biodiversity) as volunteers during the summer vacation. The purpose of this program is to give participants valuable and exciting experience through overseas research with leading scientists, and to enable them to use such experience in environmental education in communities and schools.

In fiscal year 2004, a total of ten teachers participated in the program. In fiscal year 2005, a total of 14 teachers are scheduled to join the program.

### Promotion of a barrier-free society

With the aim of creating a society where all people with or without disabilities can live comfortably, Kao has continued activities to promote a barrier-free environment. As part of such initiatives, Kao works together with The Kyoyo-Hin Foundation to make videos that help others to understand the lives and feelings of people with disabilities. These videos are available to schools free of charge.

### Kao's Guidelines for Community and Cultural Activities

1. Conduct activities that play a role in nurturing the next generation.
2. Conduct activities aimed at contributing to the development of regional communities and culture.
3. Conduct activities that protect and nurture the environment to promote a sustainable society.
4. Conduct activities that promote a barrier-free society as a form of social support.
5. Conduct activities that make effective use of Kao's resources.
6. Create an atmosphere in which every employee can participate in community activities as a good citizen.

In fiscal year 2004, four educational videos made by Kao in cooperation with the Foundation were recognized by the National Institute on Consumer Education for their contribution to the promotion of consumer education. These videos received the highest prize at the Third Consumer Education Material Awards.

### Sponsoring Tokyo Music Competition

Since fiscal year 2003, Kao has held The Tokyo Music Competition, which was originally established by Tokyo Bunka Kaikan, to find and foster young musicians. Prize winners are given support for their solo recitals from Tokyo Bunka Kaikan for five years beginning the year following the contest. Winners also receive recommendations from Tokyo Bunka Kaikan as candidates to play with orchestras and as soloists in concerts.

### Support for The Japan Association of Art Museums

In order to provide more people with opportunities to appreciate art, Kao, in conjunction with The Yomiuri Shimbun Newspaper, has provided support to The Japan Association of Art Museums since fiscal year 1982. This Association comprises 116 museums across the country. In fiscal year 2004, 27 fine arts exhibitions were carried out by 56 museums in total. Support for curators includes studying in foreign countries and awarding research grants.



● Participant of Kao Teacher Fellowship joined the field research



● Commendation ceremony at Tokyo Music Competition

## Creating Forests for Everyone

Creating Forests for Everyone is Kao's original green project launched in fiscal year 2000 in cooperation with The Urban Green Space Development Foundation. This project supports citizen organizations and NPOs that are engaged in community-based greening activities. In addition to granting awards to organizations that have already involved in greening projects (project grants), Kao offers "startup grants" for organizations that are just kicking off such activities or those that started less than twelve months ago. The new program is designed to provide continuous support to these new organizations for three years.

So far we have supported a total of 140 organizations, including citizen's organizations and NPOs across Japan. For fiscal year 2004, we have decided to offer project grants to 31 organizations and startup grants to four organizations.

● For organizations receiving grants, see page 58.

## Heart Pocket Club

The Heart Pocket Club, which was created by the Kao Group in Japan in April 2004, is an employee-participatory donation program to support social activities. Employees who agree to join the Club, donate money out of their salaries every month to build a fund. The amount is decided on a voluntary basis. The fund is then used for donations to NPOs, NGOs, and citizen organizations, as well as to support members' social activities and wide-area disaster recovery. Kao sponsors matching gift programs and doubles the contributions.

In fiscal year 2004, the Heart Pocket Club made contributions to 21 projects of NPOs and NGOs, and donated to seven wide-area disaster relief programs. As of the end of March 2005, membership is 1,388.

Further, we had a briefing session with recipients of contributions in fiscal year 2004, which provided us an opportunity to promote exchanges between NPOs/NGOs and Kao employees. A total of 15 NPOs and NGOs participated in the meeting and made presentations on their activities. One of the Club members who attended the meeting said that he now understood how his donation was being used for society. Another member said that he was moved by the commitment of NPO/NGOs' to their activities. The meeting gave employees a chance to learn about a range of social activities of which they had been unaware, and to broaden their horizons.

● For amount of contributions to disaster relief, see page 58.

## Kao Foundation for Arts and Sciences

Kao established The Kao Foundation for Arts and Culture in 1990 to commemorate its 100th year in business. The Foundation provides extensive support mainly in the fields of fine art and music. In 1997, support was extended to scientific research, and its name was

changed to The Kao Foundation for Arts and Sciences.

In addition to supporting the arts and sciences, the Foundation also provides assistance to a new field of comprehensive research that integrates social and natural sciences.



● Barrier-free education video for lower graders of elementary school



● Fine arts exhibition poster of the Japan Association of Art Museums



● Creating Forests for Everyone activities  
Recipient organization's activities



● Heart Pocket Club; briefing session  
by recipient organizations



# Kao makes efforts to address social issues in cooperation with suppliers, while maintaining fair dealing with them.

Kao endeavors to maintain fair and transparent dealing with suppliers in everyday work. We enhance supply chain management in cooperation with suppliers, and build a partnership with them to cope with social issues, including the environment.

## Promoting fair partnerships

Suppliers of packaging materials, containers, raw materials, and equipment are all indispensable partners for Kao in carrying out its business operations. We share information about our business operations with them, lay down fair, equitable, and honest rules based on the Guidelines for Procurement of Raw Materials (shown below) to strengthen mutual partnerships.

### Conducting surveys on supplier satisfaction

While we have had good communications with suppliers through business meetings, we try to enhance mutual trust through satisfaction surveys, discussions, and joint activities.

In order to objectively evaluate Kao’s dealings with suppliers, we ask 160 of our major suppliers to answer anonymous questionnaire about once every two years. Evaluation items include whether or not communication is good enough to carry out business, whether or not dealings are fair and equitable, and whether or not laws and ethics are complied with. While survey results are examined internally, they are also disclosed to suppliers so that improvement targets are set to help achieve better business operations.

### Holding quality meetings

As there are often issues to be addressed regarding the quality of our raw materials, we hold quality meetings with the related suppliers. In fiscal year 2004, 60 meetings were held with 35 companies. These meetings are attended by Kao’s staff from the purchasing division, the research & development division, and the production & engineering division. At these meetings, participants identify any problems, and both sides confirm countermeasures and the expected improvements to product quality.

### Green procurement and purchasing

We conducted an evaluation of the environment management system (EMS) implemented at 323 plants of the major raw material suppliers in Japan. This was done in April 2004 based on the Kao’s Green Procurement Guidelines. The results showed that 94% of the plants surveyed satisfied the guidelines. We asked those plants that did not meet the guidelines to establish EMS and improve their operations.

Besides green procurement of raw materials, we have also introduced green purchasing of other items including office automation equipment and stationery. In fiscal year 2004, money used for green purchasing of copy paper and stationery accounted for 75% of total spending.

## Guidelines for Procurement of Raw Materials

- Kao will conduct fair purchasing activities based on compliance and ethics.
- Kao will make efforts to assume corporate social responsibility, giving due consideration to environment and safety in its purchasing activities.

1. Fairness	(1) Kao selects suppliers based on rational judgment on the quality, price, and the delivery lead time of raw materials, as well as the stability of business management, manufacture/provision capabilities, commitments to environmental conservation. (2) Kao provides suppliers with an opportunity for fair competition, without regard to nationality.
2. Compliance/ethics	(1) Kao shall observe both letter and spirit of all applicable laws and regulations. (2) Kao will not disclose any confidential information acquired about suppliers through its procurement transactions. Kao will not conduct procurement transactions that infringe the intellectual property rights of third parties. (3) Kao will not conduct reciprocal trade for the purpose of selling Kao’s products/services. (4) Kao shall keep the receiving and giving of business gifts and entertainment within bounds that are recognized as acceptable business practice and internal regulations should be observed. In principle, individuals responsible for procurement transactions are not allowed to be entertained by suppliers, or give and receive gifts.
3. Social responsibility	(1) Kao aims to contribute to “the achievement of a sustainable society”, gives due consideration to resource protection and environmental conservation, safety, and human rights, as well as making efforts to assume corporate social responsibility. (2) Kao shall exchange necessary information with suppliers, and mutually evaluate the quality and prices of the materials, services, and each other’s businesses and shall engage in good faith mutual evaluation with our suppliers in order to continue to raise the level of quality of our respective businesses.

# Kao proactively makes efforts to enhance corporate value and improve disclosure in order to respond to the support and trust of shareholders and investors.

We endeavor to respond to the support and trust of shareholders and investors by continuous shareholder returns based on profitable growth. Also we promote transparent, fair and timely disclosure. The feedback from shareholders helps us improve management.

## Continuous shareholder returns based on profitable growth

Driven by high-value-added premium products, Kao endeavors to increase its market share of consumer products business in Japan, accelerate growth of overseas consumer products business and also further develop chemical products business globally. By doing so, we strive to continuously achieve profitable growth.

We have increased cash dividends per share for fifteen consecutive years with the increase in net income. In fiscal year 2004, we paid cash dividends of 38 yen per share, at 1.9 times when compared to five years ago. For fiscal year 2005 and onward, we have set a target for the dividend payout ratio\* of approximately 40 percent renewing the previous target of 30 percent, and strive to continue increasing cash dividends. We have been awarded by Tokyo Stock Exchange twice for continuous increase in cash dividends.

- The 9th Commendation Company in October 2000  
For dividend increase for ten consecutive years
- The 4th Commendation Company in September 1995  
For dividend increase for five consecutive years

Kao's strategic priority is to use its free cash flow for the capital expenditures as well as merger and acquisitions to increase corporate value. However, we also repurchase its common stocks as a part of the shareholder returns when

excess cash is available. Since fiscal year 1999 when share repurchase was permitted in Japan, Kao has repurchased 110 million shares in the aggregate, equivalent to an 18 percent of the total number of shares outstanding at the beginning. We make efforts to further increase net income per share.

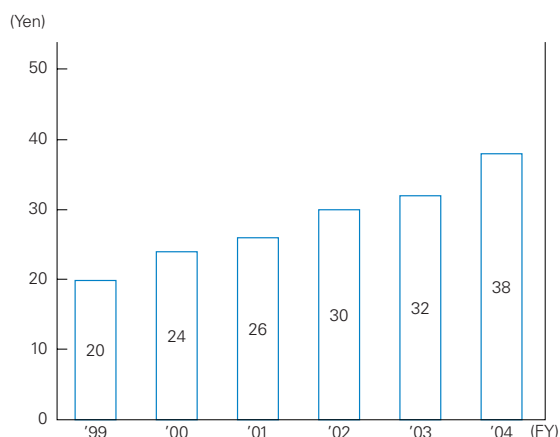
\* Dividend payout ratio represents the percentage of total dividend payout to the net income.

## Transparent, fair and timely disclosure

Kao has been working to announce business results as early as possible for more than twenty years in order to promote better understanding of the company among shareholders in Japan as well as overseas. In fiscal year 2004, we disclosed business results in 15 business days after the fiscal year-end. On the day of earnings release, related information, both in Japanese and English, is made available on our website. In an effort to enhance disclosure, we also started a service using e-mail to send news releases and Investor Information website updates to the subscribers in June 2002.

Opinions and comments obtained at annual general shareholders meetings and analyst meetings as well as received thorough Investor Information website are reported to the management and related department/divisions. The feedback thus helps us improve management and investor relations activities. We will continue to enhance communication with shareholders.

## Changes in Dividend per Share



## Topics

### Kao was awarded for its disclosure efforts

Kao has committed to disclosing information for shareholders. Kao received the 7th Excellent IR Company Award in fiscal year 2002 from the Japan Investor Relations Association (JIRA) for several reasons: management earned high confidence from the market; the President accurately answered questions on overseas business strategy and share buybacks that are most asked questions during the analyst meetings. Also; Investor Relations response to shareholders was appropriate; and information disclosure was full and prompt even though the Company has many products segments.

### Recent major recognitions

January 2004	FY2003 Best Disclosure Award by the Tokyo Stock Exchange
December 2002	The 7th Excellent IR Company Award by JIRA

The Best Disclosure Award is given to listed companies that proactively disclose corporate information in an appropriate, timely and easy-to-understand manner to investors.

The Excellent IR Company Award is given to JIRA's member companies that are actively engaged in IR activities.

# In Harmony with the Global Environment

## Identifying environmental impact at every stage of operations, Kao makes efforts to reduce environmental burden.

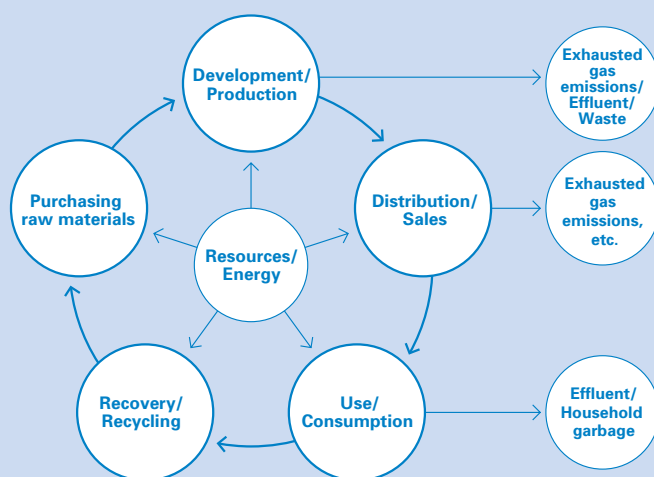
Kao uses chemical substances as raw materials to manufacture products that consumers use every day. Since primary chemicals we use are natural fats and oils and petroleum oil, we must always try to save on natural resources. Also, we must give due consideration to the impact of chemicals on ecosystems and human health generated throughout all a product's stages, including manufacturing, use, and disposal.

Manufacturing and distribution activities require energy such as electricity and fuel. This means we have to deal with, in addition to natural resource saving, the environmental impact of exhausted gas emissions. In terms of use and disposal in production processes and household activities, there are issues such as use of water resources, the impact of effluents on ecosystems, energy use in the infrastructure, including water and wastewater equipment. Moreover, when we deal with packaging materials, we must think not only about resource conservation but also about the many other issues arising from waste disposal.

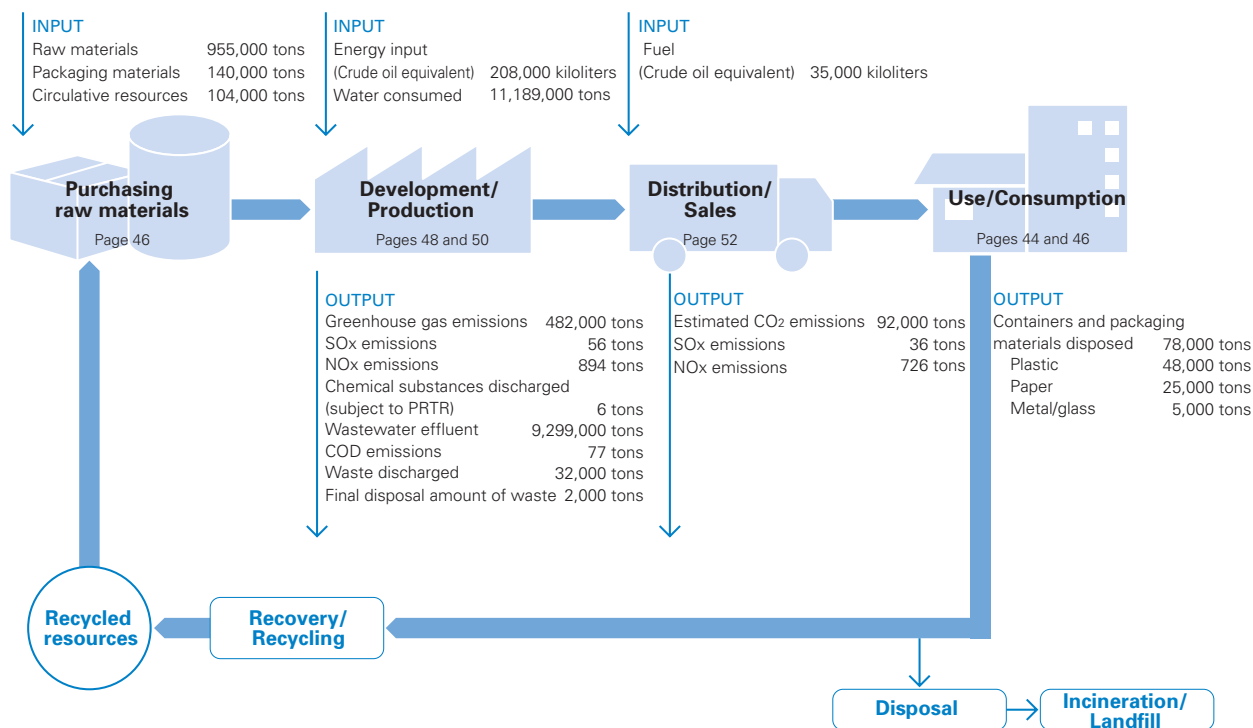
While Kao strives to provide people with products useful in their lives, it recognizes that there are many environmental issues associated with its production activities. Kao believes it is crucial to recognize this issue, make efforts to minimize environmental burden, and reduce the impacts and risks. As an approach to this challenge, Kao has attempted to measure environmental impacts numerically at every stage of operations, and implemented voluntary initiatives to reduce the overall environmental impact.

We have set numerical targets for important issues and focused our efforts on achieving them (see page15).

## Product Lifecycle and Environment



## Lifecycle of Business Operations and Environmental Load



## Meanings/Definitions of Indices

### Raw materials

The amount of raw materials directly used to manufacture products (excluding packaging materials and fuel).

### Containers and packaging materials

Total amount of cardboard and, containers and packaging materials used for products sold.

### Circulative resources

Of the waste generated from production and research activities, the amount that is recycled within Kao.

### Energy input

The amount of energy consumed in production activities (excluding energy that is used by non-production activities such as office work and research activities).

### Water consumed

Total amount of water consumed.

### Greenhouse gas emissions

The amount of greenhouse gas emissions (six greenhouse gases as specified in the Kyoto Protocol) generated from business operations (in CO<sub>2</sub> equivalent).

### SOx emissions

Total amount of SOx emissions from smoke and soot emitting facilities.

### NOx emissions

Total amount of NOx emissions from smoke and soot emitting facilities.

### Chemical substances discharged

The amount of substances subject to PRTR discharged into the air and water.

### Waste discharged and final disposal amount of waste

Of the waste discharged by production, waste sold or entrusted to waste treatment companies as waste or recyclable material, and the final disposal amount of waste.

### Wastewater effluent

Total quantity of wastewater discharged from each production plant.

### COD emissions

Figure calculated by multiplying the amount of wastewater by COD concentrations in the wastewater.

### Fuel

Crude oil consumption calculated from the estimated amount of transported consumer products (from plants to distribution center) and chemical products.

### Estimated CO<sub>2</sub> emissions

Estimated CO<sub>2</sub> emissions calculated from estimated amount of transported consumer products (from plants to distribution center) and chemical products.

### Containers and packaging materials disposed

The amount of containers and packaging materials used for products sold (excluding cardboard).

# Giving consideration to the total environmental impact of products, Kao is committed to developing products with less environmental burden.

Taking into consideration the full lifecycle of products, from raw material procurement to production, distribution, use, and disposal, Kao is making efforts to identify the environmental impacts of its products. Through this approach, Kao aims to develop products with less environmental burden.

## Cutting environmental loads through all stages of a product's lifecycle

Kao is introducing Life-cycle Impact Assessment Method based on Endpoint Modeling (LIME)\* and other Life-Cycle Assessment (LCA) method. LCA is an approach to assess the environmental impact throughout the lifecycle of products from raw material procurement to disposal. Although data accuracy is not sufficient in some aspect, we carry out assessments when developing and improving products. We use in-house database supplemented with publicly available lifecycle inventory data.

When improving laundry detergent, for example, we start from the point of how to reduce environmental impact throughout the lifecycle of the product. Therefore, we work to improve cleaning performance, which leads to resource and energy saving, as well as size reduction and using recycled resources.

As a basis of product development, we established the Standards for Environmentally-Conscious Design and Operative Provisions. These guidelines stipulate energy/resource saving, use of recycled resources, ensuring safety, and information disclosure.

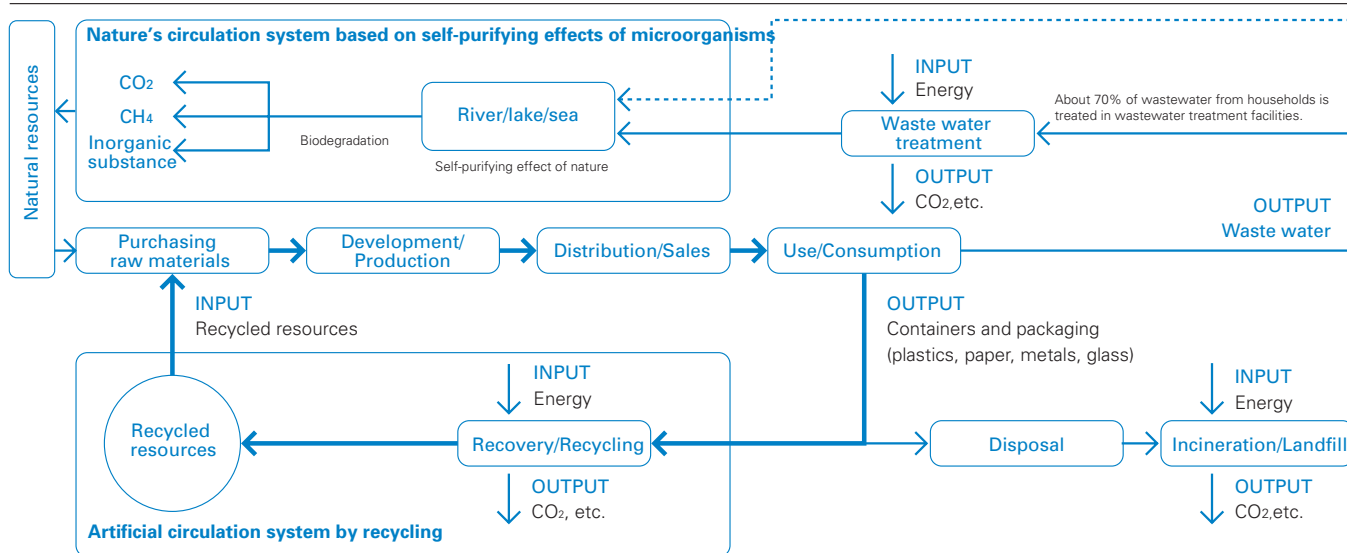
## Consideration for the natural and artificial cycles

Water released after doing laundry is treated by artificial wastewater treatment or in an ecosystem and purified before returning to nature's cycle. Since plastics used for containers are not biodegradable, they are recycled by an artificial circulation system or incinerated to be returned to nature's cycle.

As explained above, the treatment of used products depends on two circulation systems—natural or artificial. Kao's basic policy of environmentally-conscious design is to reduce environmental impact throughout a product's lifecycle without creating excessive burdens on these two circulation systems.

\*Life-cycled Impact Assessment Method based on Endpoint Modeling (LIME) is a Japanese version of the damage-oriented impact assessment method. LIME was developed by the Research Center for Lifecycle Assessment, National Institute of Advanced Industrial Science and Technology. In LIME, potential damage caused by environmental impacts, such as global warming, are measured for each impact category, including human health. These results enable the integration of environmental impacts.

## Nature and Artificial Circulation Systems





## Determining the environmental safety of surfactants

Consumer products like laundry detergent contain substances that are eventually emitted into the environment. It is important, therefore, that these substances are quickly biodegraded (that is, they possess a high biodegradability) and have no hazardous impact on ecosystems such as aquatic organisms. With regard to this, Kao strives to develop environmentally-friendly products, while at the same time, paying close attention to the negative impact of products when they are disposed of into rivers and the natural environment. To identify such impact, we conduct various types of surveys.

For example, risk assessment was conducted by the Environment, Health and Safety Task Force of the Japan Soap and Detergent Association on four types of PRTR Law-designated surfactants contained in detergents. Kao, a member of the Association, carried out the assessment in cooperation with other member companies. The four surfactants are linear-alkylbenzenesulfonic acid (LAS), poly(oxyethylene) alkyl ether (AE), N,N-dimethyldodecylamine N-oxide (AO), and bis-(hydrogenated tallow)-dimethylammonium chloride (DHTDMAC). We collected/arranged hazard data and conducted exposure tests by monitoring the environment, to evaluate the risk of impact on ecosystems (see page 48). We conducted the tests four times a year in Tama and other rivers. Based on the test results, we confirmed that the risk of these four surfactants to ecosystems is very low.

Moreover, regarding the four surfactants subject to the PRTR Law, emissions and displacement volume figures are compiled by the government. According to the data published in fiscal year 2003, displacement to sewerage was 57,231 tons for LAS, 52,505 tons for AE, 2,690 tons for AO, and 609 tons for DHTDMAC. Emissions into the environment were 20,988 tons for LAS, 19,905 tons for AE, 954 tons for AO, and 229 tons for DHTDMAC. Those figures were about the same or slightly lower than those published last year. Nevertheless, it was confirmed that the concentration of these substances in the environment was very low and does not have a negative impact on aquatic organisms because they are sufficiently biodegraded in the environment.

### Kao's global contribution to safety evaluation

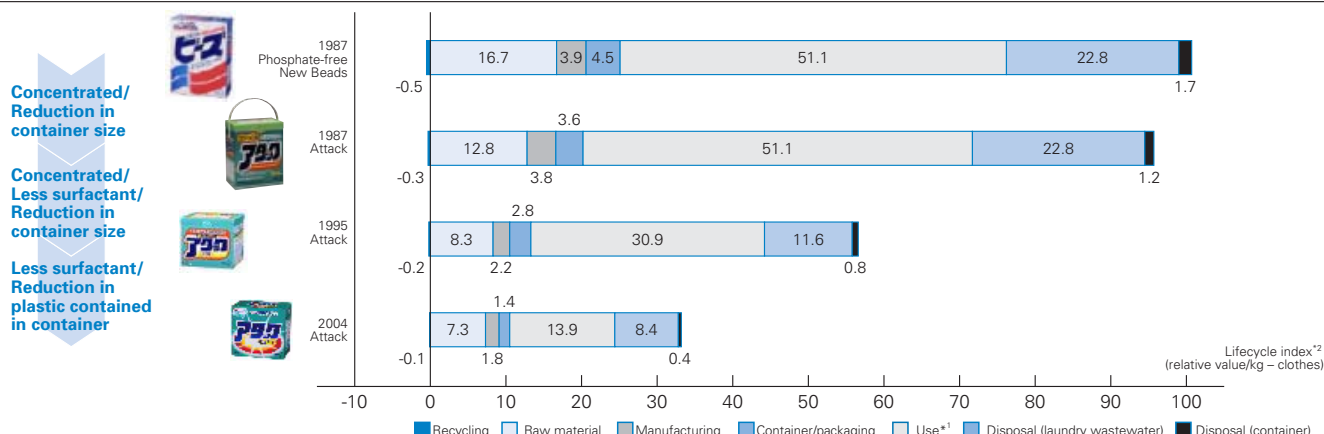
### Topics

The High Production Volume (HPV) Chemical-Testing Program started in 1987 under the OECD's initiative, and has generally been undertaken by companies on a voluntary basis. The concept of a "Product Stewardship Mind" (meaning that companies are responsible for the chemicals they produce), in other words corporate social responsibility, is significantly reflected in the program.

With the commencement of HPV activities in 2000, Kao also participated in the HPV Consortium sponsored by the U.S. Soap and Detergent Association. In cooperation with other companies in the same industry around the world, Kao has been collecting safety information and obtaining a variety of useful data.

The chemical groups that Kao has contributed cover a wide range of types and applications. These groups are LAS (a major surfactant for detergent), fatty alcohol (chemical products, cosmetic auxiliaries, raw material of industrial chemicals), amineoxide (surfactant), naphthalensulfonic acid (raw material polymer for concrete auxiliaries), ethylenebisamide (plastic auxiliaries).

## Changes in Environmental Impact of Kao's Laundry Detergent



# We are developing refill and replacement products to reduce, reuse, and recycle containers and packaging.

We are committed to developing refill and replacement products and recycling containers and packaging in an effort to promote the 3Rs (Reduce, Reuse, and Recycle) of containers and packaging for the creation of a recycling-based society.

## Giving due consideration to the 3Rs as well as quality

Kao's approach to the 3Rs for containers and packaging is as follows:

- 1) Concentration of content and compacting of products (Reduce)
- 2) Reuse of containers using refill and replacement products (Reuse)
- 3) Recycling of used containers as recycled plastics/paper (Recycle)

Owing to these efforts, we have succeeded in reducing the volume of materials used for containers and packaging. However, in fiscal year 2004, due to the launch of *Healthya Green Tea* and *Asience* hair care series, the amount of materials used has increased 3,700 tons over fiscal year 2003 (see the table below).

### Reduce by compacting and refill products

In 1988, for example, we concentrated the ingredients of *Humming* fabric softener to reduce the volume to one-third of the conventional size while maintaining the same performance. This allowed us to make the product more compact, enabling a reduction in raw materials, containers, and packaging materials. Moreover, CO<sub>2</sub> emissions per

product in the distribution process were also cut. In 1994, we marketed a refill to further reduce container and packaging materials.

As a result, in 2004, container weight and waste volume of this fabric softener have decreased to 36% and 22%, respectively, compared to 1987 (see graph below).

### Reuse and reduce by refill and replacement products

Reductions in containers and packaging materials leads to a reduction in household garbage. Kao has launched a range of refill and replacement products so that containers can be used repeatedly.

When we look at *Bioré* u body cleanser, for example, approximately reduction in plastic consumption to 15% and in waste volume to 2% was achieved, compared to the conventional bottle container (580 ml), by introducing a pouch type refill (420 ml).

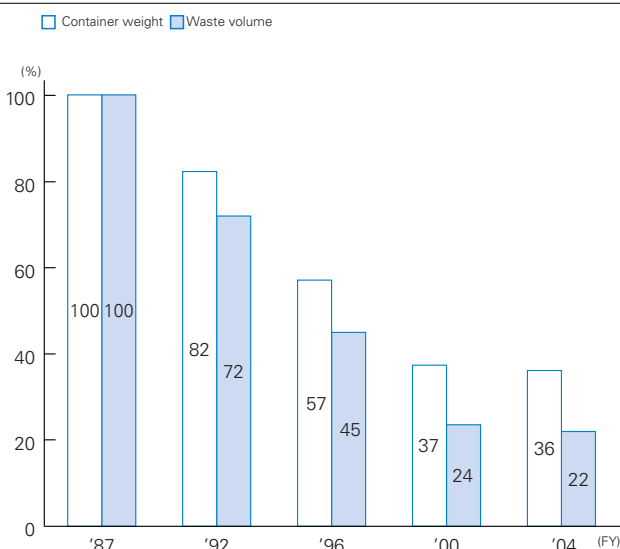
We have started marketing refill and replacement products in the middle of the 1990s, and find that more consumers are using these products. As of March 2005, refills are available for 77 of our products, and replacements for 19. The conversion ratio for refills and replacements was between 48% to 89% in fiscal year 2004, depending on the product.

The conversion ratio is the percentage of refill products sold to conventional bottle products. For instance, the

### Changes in Container and Packaging Materials Used

	(Unit: tons)				
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Plastic	46,100	45,000	42,800	46,800	48,400
Paper	21,500	21,600	21,000	26,000	25,200
Cardboard	57,200	57,200	56,400	60,300	61,900
Others	3,600	3,500	3,100	3,300	4,600
Total	128,400	127,300	123,300	136,400	140,100

### Reduction in Packaging Materials Used for *Humming*—Comparison to the Conventional Product



conversion ratio of fabric softener is 89%, which means consumers use 8 refills per bottle product on average.

- For data on environmentally-friendly products, see page 62.

## Recycling

We have been actively engaged in using recycled materials in containers and packaging. For detergents, soaps, hair colors, toothpastes, and bath additives and so forth, we use recycled paper in their containers and packaging. Also, recycled plastic is used for liquid detergent bottles and display stands for toothpaste tubes.

For laundry powder detergents such as *Attack*, recycled paper is used for the paper container and the lid, recycled polypropylene resin is used for the measuring spoon. In addition to our efforts to use more recycled materials, Kao also pays careful attention to making recycling easier by, for example, eliminating the plastic handle of the *Attack* container.

- For commitment to environmental and social issues through products, see page 7.

## Reduction in Container Size



Conventional fabric softener



Concentrated product



Refill

## Topics



**When opening a new factory, promoting environmental conservation as an all-participatory activity**

**Dararat Seenathong**  
Kao Industrial (Thailand) Company Limited

The Tsunami disaster that hit the Andaman Sea in December 2004 devastated the beautiful shores of Thailand, including Phuket Island. Fortunately, Kao Industrial was not damaged. I as a Thai citizen would like to appreciate the disaster relief efforts by the Japanese people.

I joined Kao Industrial two years ago after studying environmental science at university, because I wanted to apply what I had learned in my work. As a member of a group dealing with environmental safety, I work on data arrangements concerning environmental loading and data management based on the Environment & Safety Data Management System. Through my work, I realized that only a limited number of people are involved in environmental conservation activities. As a new factory is opening this year, production is gradually being transferred there. So, using this opportunity to take a further step, I want to spread environmental conservation activities among as many people as possible.

The area around the Andaman Sea was severely damaged by the Tsunami, but the sea and beach is still beautiful. I hope that more foreign people visit Thailand, which is helping the reconstruction of this country. Seeing our beautiful nature and people's vitality to survive this disaster, I really feel that we have to make utmost efforts to protect our valuable natural environment.

# To ensure the safe handling of chemicals, Kao implements an integrated management system, covering all aspects, from procurement to final disposal.

To identify and reduce the risks associated with the chemical cycle, Kao manages chemical substances in compliance with the PRTR Law, and issues and manages Material Safety Data Sheets (MSDSs). Kao has also developed its own Comprehensive Chemical Substance Management System to carry out risk assessment and management in a comprehensive manner.

## Comprehensively managing chemical substances by implementing a unique system

Kao manufactures and sells about 3,500 consumer and chemical products, and uses about 10,000 types of raw materials. These materials, whether natural or synthetic, are classified as chemical substances. After fully understanding the properties of each chemicals, Kao carries out risk assessment and management by the four procedures explained below. These efforts enable us to handle these substances appropriately. As it is difficult to estimate exposure conditions when chemical products are used by customers, we conduct safety evaluation mainly based on hazard information.

- 1) Hazard information (identifying the hazards related with each chemical substance)
- 2) Exposure information (identifying conditions of use, usage method, exposure levels)
- 3) Risk assessment (estimating possibility of potential risks turning into an actual hazard, based on the above information)
- 4) Setting control measures according to the severity or risk

To implement the risk assessment and management described above, Kao has developed its own Comprehensive Chemical Substance Management System utilizing the Master Index (MI) as one of the tools. MI is a system of chemical substance identification codes. In this way, we are able to comprehensively manage chemical substances through all stages—from raw material procurement to final

disposal. Kao's original system integrates a number of systems including MI, Product Regulation Information Database, MSDS\*1 Management system, Quality Information Unified Management Database (Raw Material), and Chemical Product Proposal System. Currently, approximately 25,000 chemical substances are registered in this system (including products).

### Procurement—starting green procurement

When purchasing raw materials, Kao obtains product specifications and MSDS from suppliers. Kao then used this data to manage chemical substances.

As we started green procurement in April 2004, we have provided the Kao Standards for Comprehensive Chemical Substance Management (which specifies prohibited substances, limited use substances, etc.) to suppliers. Accordingly, we ask suppliers to furnish, in addition to the conventional product specifications, an Information Sheet on Specified Chemical Substance contained, as necessary. We only purchase the raw materials after confirming that they meet our requirements.

### Use/Production—Kao establishes the standards for use (Standards for Comprehensive Chemical Substance Management)

Kao classifies chemical substances into the following four classes, and these classes are used as criteria for selecting raw materials to manufacture our products.

- Prohibited substances: substances that Kao prohibits usage (PCB, asbestos, etc.)

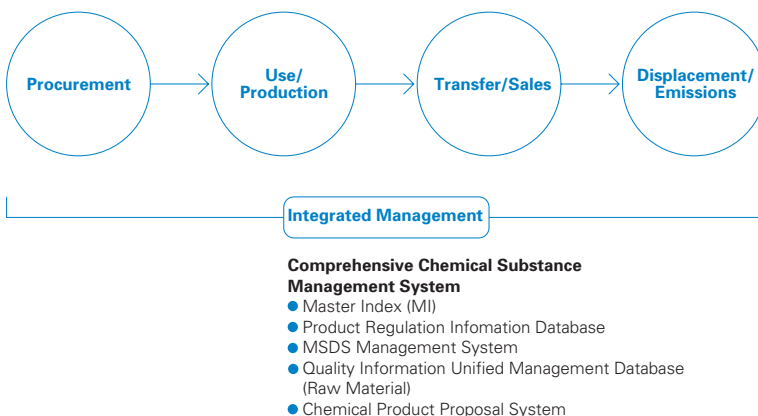
\*1 MSDS: Material Safety Data Sheet. MSDS is a product safety information sheet prepared by chemical product suppliers to provide to users and distributors to help prevent accidents related with chemical substances.

\*2 PRTR Law: Pollutant Release and Transfer Register Law. The Law requires companies to report emissions and transfers of chemical substances that may be hazardous to ecosystems and human health. By imposing this obligation, the Law aims to identify and reduce environmental risks.

\*3 Yellow Card lists all actions that a tank truck driver or someone nearly act for his/her should take in the event of an accident, as well as emergency measures for fire department and police services, when a driver is transporting chemical substances or high-pressure gas.

\*4 Container Yellow Card is a labeling system for chemical products to supplement emergency information. On the label, a guide number (emergency measure number) and UN number for hazardous substances are indicated.

## Entire Flow of Chemical Substances



- Limited use substances: substances that are being phased out (ozone layer-depleting substances, specified heavy metals, etc.)
- Substances requiring careful handling: substances that must be carefully handled according to the risk profile (those specified in the PRTR Law,\*<sup>2</sup> toxic and poisonous substances, etc.)
- Other substances: substances other than those above

### Transfer/Sales—providing MSDS and carrying Yellow Cards

Kao provides MSDS to customers when it sells chemical products. In addition to the basic version provided in Japan (in Japanese and English) as well as the EU and U.S. versions of MSDS, we prepare versions to be used in Korea and China when the need arises. We also operate a system that enables us to browse MSDS on the Internet at distribution centers of Chemical Business Division. In fiscal year 2004, we approximately prepared a total 6,600 MSDSs, of which 45% were overseas versions.

When chemical substances are transported by tank truck, information about relevant emergency measures is provided to carriers. At the same time, drivers are required to carry a Yellow Card\*<sup>3</sup> that describes all actions to be taken in the event of an emergency. About 28,000 Cards are used each year.

For chemical substances that are transported in small quantities in drums mixed with other loads, we have adopted a Container Yellow Card\*<sup>4</sup> since July 2003. A Container

Yellow Card is a label on which a guide number (emergency measure number) and UN number are indicated. Container Yellow Cards are designed to supplement emergency information.

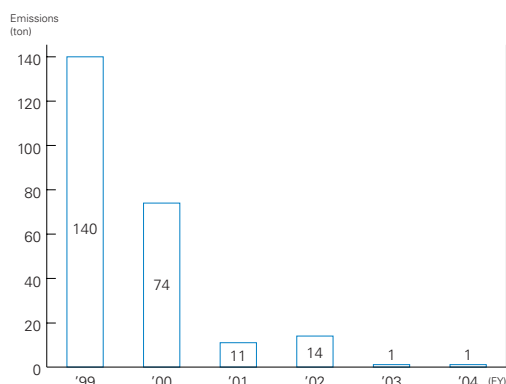
### Displacement/Emissions—reduction in substances specified in the PRTR Law

Kao has set an FY 2005 mid-term target of keeping emissions of each substance under 1 ton at each plant, and has taken measures to achieve this. In fiscal year 2003, we achieved the target of reducing emissions of each substance to one ton or less at each plant. And this level was maintained in fiscal year 2004. The graph below shows changes in emissions into the air of major substances. With respect to substances designed in the PRTR Law, we handled a total of 199,000 tons in fiscal year 2004. Of the total emissions, 5 tons were released into the air, one ton into public waters, and no releases to soil.

- For emissions of substances designed in the PRTR Law, see page 64.

In fiscal year 2004, we developed another control system called the PRTR Substance Management System. This system is designed to enhance PRTR substance management, reduce tallying work, and speed up reporting emissions. The system, which is linked to the Comprehensive Chemical Substance Management System, will allow us to further improve our PRTR substance management.

### Emissions into the Air of Major 4 Substances Subject to PRTP Law



Breakdown of emissions into the air of major substances specified in the PRTR Law is available on page 64.

### Regulatory compliance (export controls) for the export of chemical substances, Catch-All Controls

Export controls called Catch-All Controls were enforced in April 2002. This export control applies, in principle, to all goods and services. It requires exporters to confirm the "customer" and "use" of export items, and conduct an internal screening to ensure that export items are not used in the development of weapons of mass destruction. Exporters are required to retain the documentation that describes the screening results.

In October 2002, Kao introduced a new system for commercial cargo (products). The system integrates different countries' chemical laws and regulations, as well as screening logic for dangerous goods, Export Trade Control Orders, and Catch-All Controls into the existing export system. Moreover, Kao adopted another new system called the Export Support Tool in January 2004. This system is designed for screening the export of samples, equipment, and related technologies (services). Screening of hand-carried cargo brought by employees on their business trips is integrated into this system, too. Export Support Tool has a function of automatic invoice preparation, which enables effective and accurate export examination. The total number of export examinations each year is almost 2,800 cases.



# We reduce environmental impact of production activities by saving resources and energies.

Reduction in energy/resource input of production activities leads to a reduction in output of CO<sub>2</sub> and waste. Setting numerical targets at each plant and making voluntary efforts, Kao has made steady improvements in measures to reduce environmental impacts.

## Energy saving through introduction of co-generation

Kao has proactively installed co-generation<sup>\*1</sup> facilities at its plants since 1991 as an energy saving measure in production activity. Currently, a total of 20 co-generation facilities are installed at domestic plants. Although no co-generation facilities were installed in fiscal year 2004, we plan to install more in the future.

Kao is implementing other energy-saving measures at its plants. Such measures include, elimination and consolidation of refrigerators and pumps, introduction of high efficiency motors, installation of inverters in pumps, blowers and fluorescent lamps to improve energy efficiency. Despite these efforts, energy consumption in fiscal year 2004 has slightly increased from the previous year due to an increase in production volume (see the graph below).

## Reduction in greenhouse gases emissions through fuel switching

Reduction in greenhouse gases<sup>\*2</sup> emissions that contribute to global warming is one of the biggest challenges we face. Therefore, in addition to energy saving, we have promoted fuel switching from heavy oil to natural gas to reduce emissions.

In fiscal year 2004, however, emissions slightly increased from the previous year due to increased energy consumption resulting from expanded production (see the graph below).

## Reduction in water use and effluent

At plants, water is used to manufacture products, to clean and cool the equipment, as well as for drinking and toilet. Due to our efforts to use water effectively, both water consumption and effluent have decreased from the previous year.

● For water consumption and effluent, see page 63.

## Reduction in final disposals of waste

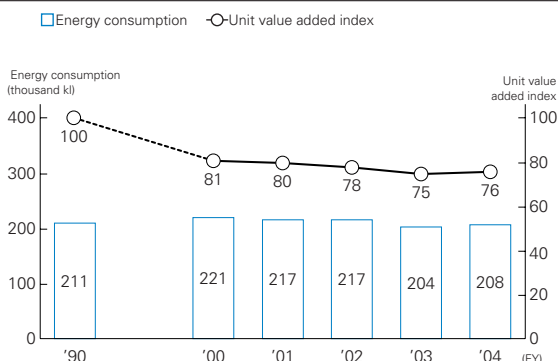
In fiscal year 2004, waste generation increased by 7% compared with the previous year due to expanded production, and waste treated outside the company also increased by 9%. The final disposal amount, however, decreased by 27% supported by zero emissions at Tochigi Plant and Toyohashi Plant (see explanation at the bottom of the following page).

In fiscal year 2004, five out of eight domestic plants achieved zero emissions.

<sup>\*1</sup> Co-generation produces electricity and heat simultaneously using a fuel such as natural gas that has less CO<sub>2</sub> emissions. The heat produced from the electricity generation process is utilized as a heat for both industrial and domestic purposes. Co-generation significantly improves heat efficiency.

<sup>\*2</sup> The Kyoto Protocol specifies the following six gases as greenhouse gases: CO<sub>2</sub>, methane, dinitrogen monoxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride.

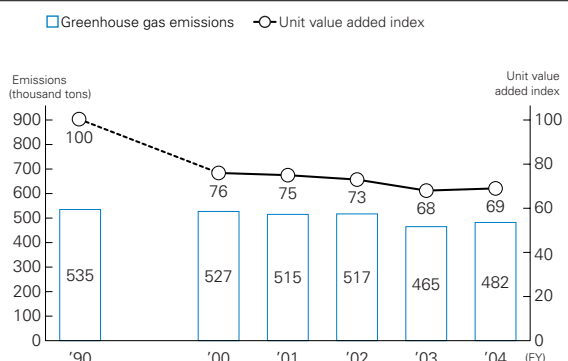
### Changes in Energy Consumption of Production Activities



Energy consumption figures for 1990 and after were revised based on the guidelines<sup>\*</sup> released by Agency for Natural Resources and Energy. That means figures are different from those contained in the Environment, Safety and Social Report 2004.

<sup>\*</sup> Guidelines for periodical report based on Article 11 of the Law concerning the Rational Use of Energy (July 2004).

### Changes in Greenhouse Gases Emissions



Emissions (CO<sub>2</sub> equivalent): Emissions of each greenhouse gas specified in the Kyoto Protocol are converted to CO<sub>2</sub> equivalent in accordance with the guidelines<sup>\*</sup> established by the Ministry of the Environment, and the figures are totaled. Up to fiscal year 2003, total emissions of CO<sub>2</sub>, methane, and N<sub>2</sub>O were used, while in fiscal year 2004 total emissions of all six gases were adopted.

<sup>\*</sup> Guidelines for calculation method of greenhouse gas emissions generated by enterprises (Draft ver. 1.5) (July 2003)

## Management of PCB

In 1994, Kao brought together a total of 4.5 tons of Polychlorinated biphenyls (PCBs), which was stored at facilities and offices throughout Japan, into Wakayama Plant. We report its amount to the government every year. For equipment that may contain an extremely small amount of PCBs, we conduct an examination when the equipment is replaced. If PCBs is detected, we report it to the government, and that equipment is stored and managed properly at the relevant plant.

Once a treatment method is established, we will undertake it as soon as possible.

## Response to laws and regulations

In fiscal year 2004, there was a violation of the environmental law concerning water quality at Kao. At Sumida Office, BOD\*1 and n-hexane extract slightly exceeded the sewage standard. It is believed that cleaning fluid was discharged while a cleanup was being carried out during refurbishment of the office. Since there has been no work generating cleaning fluid after that, BOD and n-hexane have not exceeded the allowable limits. In the future, we will pay closer attention to work that generates cleaning fluid, and take measures to prevent a recurrence.

As for soil contamination, taking into account the history of chemical substance use, we conducted surveys at

Wakayama Plant, Tochigi Plant and Sakata Plant. We measured the values of environmental quality standard substances contained in the groundwater. At Kawasaki Plant, a dissolution test was conducted on the soil of its premises, and the values of environmental quality standard substances contained in the soil were measured. We found no soil contamination.

Emissions of SOx,\*2, NOx,\*3 and soot and dust into the air, and emissions of COD,\*4 nitrogen, and phosphorous into the water all met the regulatory standard.

At specific plants (Wakayama and Tokyo) close to residential areas, we received six complaints from local residents. We took immediate action to deal with these complaints, and will continue to listen to local people and respond to them in good faith.

● For emissions of air pollutants and water pollutants, see page 63.

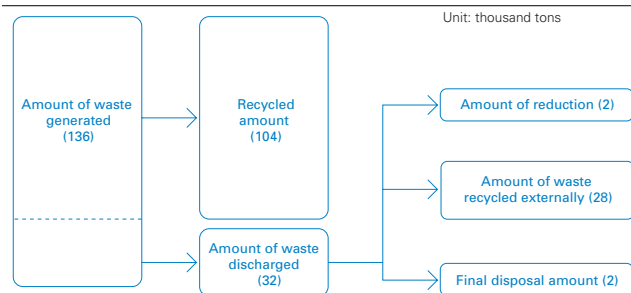
\*1 BOD: biochemical oxygen demand. BOD is the amount of oxygen that is required by microorganisms to degrade contaminants in water. The higher the BOD, the more serious the water contamination.

\*2 SOx is the generic term for SO<sub>2</sub>, SO<sub>3</sub> and sulfuric acid degrade mist, among sulfur oxides that are generated by combustion of fuel containing sulfur.

\*3 NOx includes NO and NO<sub>2</sub> among nitrogen compounds that are generated when fuel is burned.

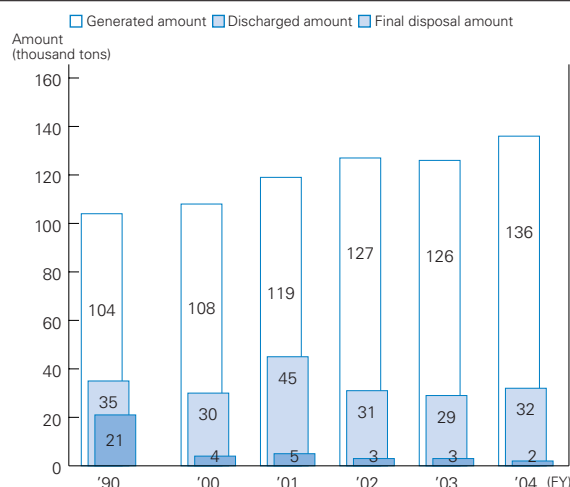
\*4 COD: chemical oxygen demand. The COD value indicates the amount of oxygen needed when organic compounds in wastewater are chemically oxidized by an oxidizing agent (potassium permanganate or potassium dichromate). The higher the COD, the more the organic compounds in wastewater and the higher the pollution level.

## Amount of Waste Generated and Treatment Flow



- Amount of waste generated: Undesirable substances and defective products generated from the production stage (including valuable resources such as used paper and metals, and items that can be used at other plants).
- Recycled amount: Resources that is reused or recycled at plants (including thermal recycling).
- 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



# Kao is reducing environmental impact from exhaust gases by pursuing improved efficiency in logistics.

Increased distribution efficiency is directly linked to resource/energy saving and a reduction in exhaust gases, thereby contributing to a reduction in the environmental burden. Kao pays due attention to environment and safety through rationalization of transportation means and contingency planning.

## Environmental impact of transportation

Kao's distribution flow comprises two segments: consumer products and chemical products. In fiscal year 2004, total work quantity\* transported within Japan was 672 million ton-kilometers. The breakdown is as follows:

- (1) Consumer products (from plants to distribution centers): 564 million ton-kilometers
- (2) Chemical products (from plants to customers): 108 million ton-kilometers

Total emissions associated with the transportation of products were 92,000 tons of CO<sub>2</sub>, 36 tons of SO<sub>x</sub>, and 726 tons of NO<sub>x</sub>.

## Improved logistics efficiency using an advanced information system

Kao has been engaged in rationalizing logistics for consumer products since the 1960s, and has established an advanced system to deliver products from plants to retailers. The company has improved distribution efficiency by centralizing inventory management, receipt of orders and delivery. To achieve this, Kao uses an advanced information system that

utilizes a Global Positioning System (GPS). Improved distribution efficiency is directly linked to resource/energy saving and leads to a reduction in exhaust gases from delivery trucks, which can significantly help to reduce environmental impact.

\* Work quantity is obtained by multiplying the ton quantity of products transported by the transportation distance in kilometers.

## Transportation Mode and Exhaust Gases

Consumer products				
Transportation mode	Work quantity ratio (%)	CO <sub>2</sub> (tons)	SO <sub>x</sub> (tons)	NO <sub>x</sub> (tons)
Truck	73	71,903	29	502
Rail (JR)	16	1,872	-	91
Ship/boat	11	2,330	1	16
Total	100	76,105	30	609

Industrial products				
Transportation mode	Work quantity ratio (%)	CO <sub>2</sub> (tons)	SO <sub>x</sub> (tons)	NO <sub>x</sub> (tons)
Truck	79	14,940	6	104
Rail (JR)	9	203	-	10
Ship/boat	12	489	0	3
Total	100	15,632	6	117

- CO<sub>2</sub> is calculated using the emission coefficient obtained from transport-mode-based CO<sub>2</sub> emission unit requirements, in Logistics Policy of the Ministry of Land, Infrastructure and Transport.
- SO<sub>x</sub> is the sulfur content in fuel, and calculated using an emission coefficient obtained from the safety standards of the Ministry of Land, Infrastructure and Transport.
- NO<sub>x</sub> is calculated using the emission coefficient of the Eco Program.

## Kao obtained Eco Rail Mark certification

Kao has been using rail and marine transportation that has less environmental impact. In fiscal year 2004, we became the first in the industry to obtain Eco Rail Mark\* recognition, created by the Ministry of Land, Infrastructure and Transport, and which is given to companies that promote rail transportation. Kao was recognized for its efforts to switch long-distance transportation (more than 500 km), which has a substantial environmental impact, from truck to rail. In fiscal year 2004, rail transportation accounted for 37% of the total ground transportation covering a distance of more than 500 km.

\* The Eco Rail Mark is designed to encourage companies to use rail transportation to reduce environmental impact. The standard for recognition is that the company's rail transportation accounts for more than 15% (in terms of quantity or quantity x distance) of total ground transportation covering a distance of more than 500 km.



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# CSR Related Guidelines

## The Kao Way

### Mission

Our mission is “to strive for the wholehearted satisfaction and enrichment of the lives of people globally” through the Company’s core domains of cleanliness, beauty, health and chemicals. Fully committed to this mission, all members of the Kao Group work together with passion to provide products and brands of excellent value created from the consumer/customer’s perspective. In so doing, we “share joy with the consumer/customer”.

### Vision

We aim to be “a global group of companies that is closest to the consumer/customer in each market”, earning the respect and trust of all stockholders and contributing to the sustainable development of society.

### Values

#### Yoki-Monozukuri

We define “Yoki-Monozukuri” as “a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction”. It consists of the following core concepts, which distinguishes us from all others. In Japanese, “Yoki” literally means “good/excellent”, “Monozukuri” means “development/manufacturing of products”.

- We strive to develop innovative products and brands to maximize consumer satisfaction by determining the needs of consumers and fusing them with the seeds of R&D. [Fusing Needs & Seeds](#)
- We create dynamic synergy by uniting the creativity and energy of every person and team to enhance Yoki-Monozukuri. The driving force of Yoki-Monozukuri is the passion of individual members as the source of our corporate strength. [Uniting Abilities](#)
- We reinvest the profits earned through Yoki-Monozukuri towards the continuous creation of products and brands of excellent value. This cycle of Yoki-Monozukuri earns us the respect and trust of all stakeholders including consumers, employees, business partners, local communities and shareholders, thereby achieving profitable growth [Yoki-Monozukuri Cycle](#)

#### Innovation

- We continuously improve and innovate our products, brands and business processes in order to stay one step ahead of changes in consumer lifestyles and the business environment. [Continuous Improvement & Innovation](#)
- We proactively seek new opportunities and challenges, never being satisfied with the status quo. [Never being Satisfied with the Status Quo](#)
- We regard difficulties as opportunities for self-improvement and continue to grow individually and as a corporation by overcoming them. [Difficulties are Opportunities](#)

#### Integrity

- We treat others with respect and fairness, and pursue our work with sincerity and diligence in an effort to optimize the performance of individuals and the corporation as a whole. [Respect, Fairness, Sincerity & Diligence](#)
- We behave lawfully and ethically, and earn the respect and trust of all stakeholders through sound and honest business activities. [Behaving Lawfully & Ethically](#)
- We, as a responsible corporate citizen, seek to ensure the safety of our products and operations, and strive to protect the environment and contribute to the sustainable development of society. [Responsible Corporate Citizen](#)

### Principles

#### Consumer Driven

- We always place the consumer as our first priority, conducting day-to-day work from the viewpoint of the consumer. [The Consumer is Our First Priority](#)
- We strive to be as close as possible to the consumer to grasp actual needs and develop products and brands with greater value. [Be Close to the Consumer](#)
- We actively communicate with the consumer and utilize the feedback in daily business activities. [Communicate with the Consumer](#)

#### Genba-ism

“Genba” literally means “actual spot”. At Kao, “Genba-ism” defines the importance of observing things “on-site”, in the actual location and environment, both internally and externally, in order to maximize our understanding of the business and optimize our performance.

- We always strive to visit sites, and sense, experience and understand consumer behavior in purchasing and using products. [Understand the Consumer Genba](#)
- We share experiences and understanding among operational Genba to enhance organizational capabilities and to promote unification within the group. [Unification through Knowing Genba](#)
- We constantly seek fresh ideas and inspiration from Genba, as they can be catalysts for innovation in our products, brands and business processes. [Inspiration from Genba](#)

#### Respect & Teamwork

- We respect diversity in culture, nationality, creeds, races, gender and personalities. [Respect Diversity](#)
- We challenge to maximize our individual capabilities and pursue high-performance targets, always approaching daily tasks with enthusiasm. [Maximize Individual Capabilities & Performance](#)
- We attain higher goals by working as a team, encouraging the active exchange of ideas and opinions, and sharing information. [Enhance Active Communication](#)
- We build firm cooperative relationships with our business partners through mutual understanding and respect for the benefit of all parties. [Cooperate with Business Partners](#)

#### Global Perspective

- We strive to deeply understand the different cultures and customs of each market and offer products and brands appropriately suited to the needs of local consumers. [Understand Local Needs](#)
- We develop suitable business operations involving marketing and sales activities in each market. [Develop Suitable Local Business Operations](#)
- We are always open to innovative ideas and technologies from any source, internal or external, and strive with sincerity to learn anything that is superior from global perspective. [Be Open to New Ideas](#)
- We pursue the global efficiency and benefits of the Kao Group while respecting local initiatives. [Global Optimization](#)



## Kao's Business Conduct Guidelines(Revised in 2005)

(For the complete version: <http://www.kao.co.jp/en/company/guidelines/index.html>)

### Principles of Corporate Ethics

- Kao Corporation seeks to be an honest and exemplary company, guided by sensible and fair actions and driven by a fundamental adherence to ethical principles that go beyond mere compliance with laws to earn the true respect of all stakeholders.
- We shall not pursue profits at the expense of the ethical principles set out in Kao's Business Conduct Guidelines.
- Even within a legally acceptable scope, we shall take the most exemplary initiatives.
- Illegal and unethical action is prohibited even if for the purpose of seeking to benefit the company or if following instructions from a supervisor.
- We shall not ignore illegal, unethical or other questionable conduct. All such conduct should be brought to the attention of a supervisor, the Legal & Compliance Division or other appropriate department.
- Kao shall protect and safeguard, to the maximum extent practicable, the identity of anyone who reports information regarding illegal, unethical or other questionable conduct or seeks consultation about such conduct.
- No unfavorable treatment shall be accorded to anyone for providing such information or seeking such consultation.
- If an employee of a Kao Group company breaches these guidelines, such employee will be subject to disciplinary actions based on the internal regulations of the company to which such employee belongs.

### 1. Ensure the Safety and High Quality of Products

- (1) We shall always strive to develop and provide high quality products that place emphasis on the health and safety of our consumers and customers.
- (2) We shall provide consumers and customers with appropriate information regarding the proper use of products.
- (3) We shall provide honest and prompt responses to consumer and customer inquiries and complaints.
- (4) We shall advertise honestly and sensibly.

### 2. Thoroughly Consider the Environment and Safety

- (1) We shall contribute to the achievement of the sustainable development of society by giving thorough consideration to environmental conservation and human safety in every aspect of our operations, including product development, manufacture, distribution, consumption and waste disposal.
- (2) We shall develop and produce products with a minimum impact on the environment, and wherever practicable, in a manner that efficiently uses and recycles natural resources and energy.
- (3) We shall strive to develop innovative technology, products and services that contribute to a resolution of environmental problems.

### 3. Maintain Fair and Honest Transactions

- (1) We shall observe both the letter and spirit of all applicable laws and regulations including antitrust laws.
- (2) We shall implement strict internal controls to prevent unlawful or unethical transactions.
- (3) We shall keep the receiving and giving of business gifts and entertainment within bounds that are recognized as acceptable business practice in order to avoid undue influence on business transactions or even the appearance of it.
- (4) We shall engage in good faith mutual evaluation with our suppliers in order to continue to raise the level of quality of our respective businesses.

### 4. Respect Employees' Individual Human Rights and Diversity, and Maximize Their Potential

- (1) We shall respect employees' human rights and value their diversity regardless of their culture, nationality, creed, race, gender, age or other protected category to unite their individualities and abilities into the company's collective strength.
- (2) We shall evaluate individuals fairly, according to their roles, duties, and job performance to develop individual members so that they can proactively challenge and overcome difficulties.
- (3) We shall strive not only to maintain a safe, clean, comfortable and hygienic workplace on the basis of cooperation between the company and its employees, but also strive to offer a healthy balance between job performance and family life so that employees may fulfill their family responsibilities.

### 5. Pursue Profitable Growth and Accommodate Shareholders' Expectations

- (1) We shall strive to deliver appropriate returns to shareholders through profitable growth that is based on lawful and ethical business activities.
- (2) We shall strive to disclose material corporate information to our shareholders and investors accurately and in a timely fashion.

### 6. Maintain a Fair, Open and Exemplary Corporate Position

- (1) We shall conduct public relations activities that are factually based, and we shall be honest in disclosing necessary and appropriate information to the public. We shall strive to maintain openness. We shall also listen carefully to the voices of the stakeholders and be sensitive to opinions and criticisms that are sincerely expressed.
- (2) We shall not engage in any activities which are detrimental to society. Furthermore, we shall resolutely resist pressure by any individual, group or organization to support such activities.
- (3) We shall maintain legitimate and lawful relationships with political and governmental entities.

### 7. Strictly Manage Information and Assets

- (1) We shall maintain a correct file of all business records, including accounting records.
- (2) We shall conscientiously implement internal control procedures.
- (3) We shall carefully manage the company's confidential information, intellectual property, and tangible and intangible assets. We shall respect and shall not unlawfully or improperly obtain or use confidential information, personal information or the intellectual property of others.

### 8. Contribute to the Enrichment of Society through Activities that Make A Social Contribution

- (1) We shall conduct activities to promote the development of future generations in order to contribute to the enrichment of society and to its sustainable development.
- (2) We shall make suitable donations considering social standards, public interest and usefulness.
- (3) We shall seek to earn goodwill and trust by contributing to local communities as responsible members of society.
- (4) We shall respect the volunteer spirit of individuals who take initiative and responsibility to contribute to society.
- (5) In Japan, we shall support the development of the arts and sciences through the Kao Foundation for Arts and Sciences.

### 9. Respect Cultures of Individual Countries and Observe Laws and International Rules When Conducting Business Activities

- (1) We shall observe both the letter and the spirit of the laws of the countries in which we have dealings, and we shall respect local cultures.
- (2) We shall contribute to the economy, standard of living and culture of those countries and regions through the development of our business activities conducted in those locations.
- (3) We shall endeavor to employ, train and promote capable people within Kao Group companies in the countries where we conduct business.
- (4) We shall not participate in bribery or offer or accept illegal or inappropriate gifts or business entertainment.
- (5) We shall observe the laws of all relevant countries/regions when importing and exporting goods.

### 10. Draw a Distinct Line between Business and Private Matters

- We shall always establish a clear line between business and private matters to prevent conflicts of interest. Personal profit or advantage shall not be pursued through the use of company assets or information, or through work-related authority and position.
- (1) We shall not engage in insider trading.
  - (2) Political activities shall only be performed on a personal basis.
  - (3) Involvement in ideological and religious activities shall be allowed only on a personal basis.
  - (4) We shall strive to avoid conflicts of interest.

### 11. Executives and Managers Shall Acknowledge Responsibilities

Executives and managers shall firmly acknowledge that compliance with Kao's Business Conduct Guidelines is their responsibility and obligation. They shall also take the lead in fulfilling social responsibilities, and accept the responsibility as management to communicate the values of Kao's Business Conduct Guidelines to their members.

## The Ten Principles of the Global Compact (<http://www.unglobalcompact.org/portal/>)

### Human Rights:

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and  
Principle 2: make sure that they are not complicit in human rights abuses.

### Labour Standards:

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;  
Principle 4: the elimination of all forms of forced and compulsory labor;  
Principle 5: the effective abolition of child labor; and  
Principle 6: the elimination of discrimination in respect of employment and occupation.

### Environment:

- Principle 7: Businesses should support a precautionary approach to environmental challenges;  
Principle 8: undertake initiatives to promote greater environmental responsibility; and  
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

### Anti-corruption

- Principle 10: Businesses should take work against all forms of corruption, including extortion and bribery.

# Operational Data

## Offices, Plants and Research Laboratories in Japan

Offices	Kayabacho Office (Chuo-ku, Tokyo), Osaka Office (Nishi-ku, Osaka-shi), Sumida Office (Sumida-ku, Tokyo)
Plants	Wakayama Plant (Wakayama-shi), Tokyo Plant (Sumida-ku, Tokyo), Sakata Plant (Sakata-shi), Kawasaki Plant (Kawasaki-shi), Tochigi Plant (Haga-gun, Tochigi), Kashima Plant (Kashima-gun, Ibaraki), Toyohashi Plant (Toyohashi-shi), Ehime Sanitary Products Company, Limited (Saijo-shi)
Research Laboratories	Wakayama Research Laboratories (Wakayama-shi), Tokyo Research Laboratories (Sumida-ku, Tokyo), Tochigi Research Laboratories (Haga-gun, Tochigi)

\* Ehime Sanitary Products Company, Limited is a separate company from Kao Corporation, but the company is regarded as one of Kao's plants because it produces dedicatedly Kao's products.

\* Please refer to pages 66 and 67 for each plant's location, plant area, production items, production volumes, etc.

## Major Affiliates in Japan

Chuo-ku, Tokyo	Kao Hanbai Co., Ltd. Kao Cosmetics Sales Co., Ltd. Nivea-Kao Co., Ltd. Kao-Quaker Co., Ltd. Kao Logistics Service Co., Ltd.
Sumida-ku, Tokyo	Kao Shoji Co., Ltd. Kao Infonetwork Co., Ltd. Kao Logistics Co., Ltd. Kao Professional Service Co., Ltd.*
Ihara-gun, Shizuoka	Niko Paper Company
Tosa-shi, Kochi	Inogami Co., Ltd.

\*Kao's Professional-use products business was spun off in October 2004 to form Kao Professional Service Co., Ltd.

## Major Affiliates Overseas

China:	Kao (China) Holding Co., Ltd., Kao Corporation Shanghai, Kao Commercial (Shanghai) Co., Ltd., Kao Transfer (Hangzhou) Co., Ltd., Kao Chemical Corporation Shanghai, Zhongshan Kao Chemicals Limited
Hong Kong:	Kao (Hong Kong) Limited, Kao Chemicals (Hong Kong) Limited
Taiwan	Kao (Taiwan) Corporation
Indonesia:	P.T. Kao Indonesia, P.T. Kao Indonesia Chemicals
Malaysia:	Kao (Malaysia) Sdn. Bhd., Fatty Chemical (Malaysia) Sdn. Bhd., Kao Soap (Malaysia) Sdn. Bhd., Kao Oleochemical (Malaysia) Sdn. Bhd., Kao Plasticizer (Malaysia) Sdn. Bhd.
Philippines:	Pilipinas Kao, Inc.
Singapore:	Kao (Singapore) Pte. Ltd.
Thailand:	Kao Consumer Products (Southeast Asia) Co., Ltd., Kao Industrial (Thailand) Co. Ltd., Kao Commercial (Thailand) Co. Ltd.
Vietnam:	Kao Vietnam Co., Ltd.
Australia:	Kao (Australia) Marketing Pty. Ltd.
Mexico:	Quimi-Kao, S.A. de C.V.
U.S.A.:	Kao Brands Company*, Kao Specialties Americas LLC, ADM Kao LLC
France:	Kao Corporation (France) SARL
Germany:	KPSS - Kao Professional Salon Services GmbH, Kao Chemicals GmbH
Spain:	Kao Chemicals Europe, S.L., Kao Corporation S.A.

\*In September 2004, the company name was changed from the Andrew Jergens Company to Kao Brands Company, integrating the consumer product businesses of such as "Jergens" and "John Frieda" of the U.S. and "Guhl" of Germany.

## Kao's Business Fields

Business Category	Sales Category	Main Products
Consumer products	Personal Care	Toilet soaps, facial washes, body cleansers, shampoos, conditioners, hair care products, hair coloring agents, bath additives, toothpastes and toothbrushes
	Fabric & Home Care	Laundry detergents, dishwashing detergents, house cleaning detergents, laundry finishers, paper cleaning products
	Feminine Care, Baby Care and Others	Sanitary napkins, disposable diapers, healthy cooking oil, tea drinks
Prestige cosmetics	Cosmetics	Cosmetics ( <i>Sofina</i> etc.)
Chemical products	Chemical Products	Industrial edible fats and oil, fatty acids, fatty alcohols, glycerin, fatty amines, surfactants, raw polyurethanes, plasticizers for synthetic resin, toners, toner binders, aroma chemicals

## Major Industrial Associations of which Kao is a member

Japan Chemical Industry Association  
Japan Responsible Care Council (JRCC)  
Japan Surfactant Industry Association  
Japan Soap and Detergent Association  
Japan Food Detergent Sanitation Association  
Japan Dentifrice Manufactures Association

Japan Hygiene Products Industry Association  
Japan Margarine shortening & Land Industry's Association  
Japan Bath Additive Industry Association  
Japan Cosmetic Industry Association  
Tokyo Cosmetic Industry Association  
Japan Plasticizer Industry Association

# Economic Performance Data

## Trends in Consolidated Net Sales and Profit

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Net sales (billion yen)	821.6	839.0	865.2	902.6	936.8
Operating income (billion yen)	107.0	111.7	114.9	119.7	121.3
Ordinary Income (billion yen)	111.8	113.5	117.4	122.6	125.3
Net income (billion yen)	59.4	60.2	62.4	65.3	72.1
Numbers of employees	19,068	19,923	19,807	19,330	19,143

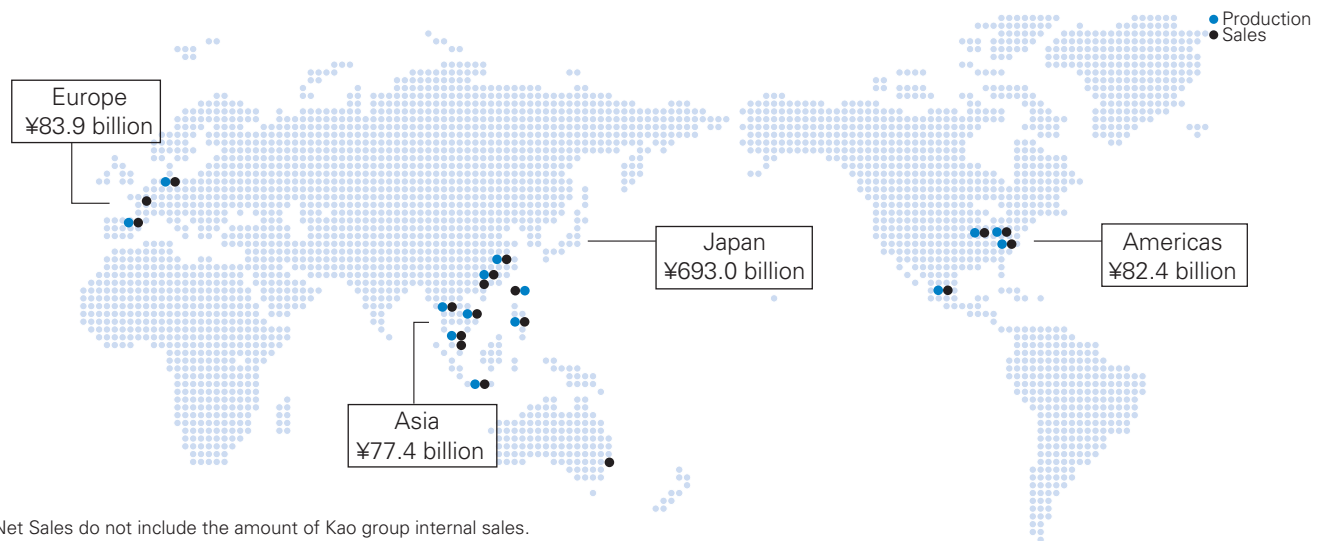
Fiscal Year End: March 31

## Trends in Net Sales and Profit of Kao Corporation (Japan)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Net sales (billion yen)	660.4	654.1	661.7	665.9	694.6
Operating income (billion yen)	92.3	92.4	94.4	98.3	98.0
Ordinary Income (billion yen)	98.3	98.5	98.3	105.4	104.5
Net income (billion yen)	52.2	55.5	49.4	61.0	62.5
Numbers of employees	5,761	5,744	5,717	5,724	5,600

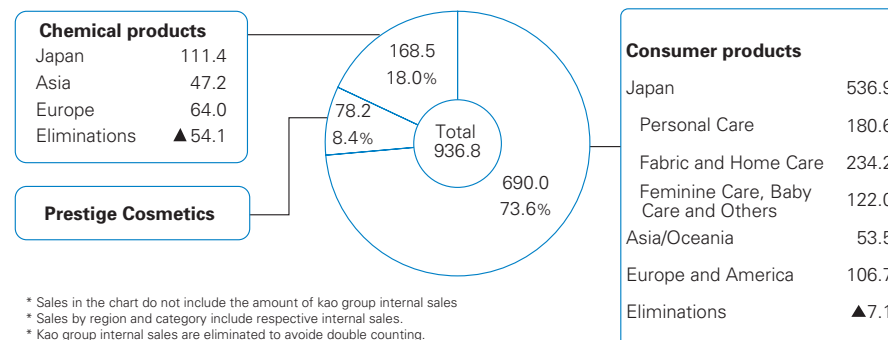
Fiscal Year End: March 31

## Global Operations and Net Sales by Region



## Breakdown of Consolidated Sales

(Unit: billion yen)



# Social Contribution Activity Data

## List of Organizations for Donation under the Fifth “kao’s Creating Forests for Everyone” Program

### Support to projects

Organization name	Project name
Society for the nature of hometown Bihoro [Bihoro-cho, Abashiri-gun, Hokkaido]	Green village: Creating a wild bird forest
Society of cherry trees for those who participated in the tree-planting program commemorating the 40th anniversary of the consolidation of Namioka town and village [Namioka-cho, Minami Tsugaru-gun, Aomori]	Cherry trees and green ways to be handed down to grandchildren
“Tororin” village (Society for nurturing the Kenashimori reclaimed land) [Morioka-shi, Iwate]	Tororin village: Community woodland creation
Society to learn about “ <i>Banri no matsubara</i> ” [Sakata-shi, Yamagata]	Research into the nature and history of the creation of the Shonai coastal forest
Society of ginkgo [Fujishiro-machi, Kita Soma-gun, Ibaraki]	“Creation of <i>kunugi</i> (deciduous oak) forest” and “creation of leafy shade” for everyone, promoted by tree-planting activities by local residents
Forest volunteer “ <i>Kawachi no mori</i> ” council [Utsunomiya-shi, Tochigi]	Environmental program of creating woody parks in cities and to plant flowering trees and shrubs
Society to promote forest creation in Konakagawa [Tsubame-shi, Niigata]	Konakagawa forest creation project
Tsurugashima community woodland support club [Tsurugashima-shi, Saitama]	Preservation and maintenance of citizen’s forests and PR activities for city residents
Tokigane watching [Togane-shi, Chiba]	Tokigane Lake tomorrow’s forest development
Nanayama green space society [Tama-shi, Tokyo]	Preservation of Nanayama green space
Society to protect the nature and culture of Heirizenji [Nerima-ku, Tokyo]	Restoration and preservation of deciduous broad leaf forests, typical of the Musashino area
Nona nature club Seseragi group [Hachioji-shi, Tokyo]	Reorganization of a space with biodiversity of greenery and water (Activity to promote restoration of nature in urban water parks)
Specified NPO, Kamakura green society [Kamakura-shi, Kanagawa]	Tree planting activities to restore woodlands in Kamakura
Asao Tama beautiful forest society [Yokohama-shi, Kanagawa]	Management and operation of woods for citizens’ health in Asao-ku, Kawasaki-shi
Yokohama urban sanctuary society, Coppice forest fan club [Yokohama-shi, Kanagawa]	To turn an urban sanctuary into an enjoyable and beautiful forest and to utilize the blessings of the forest
Japanese bamboo fan club [Yokohama-shi, Kanagawa]	Preservation and nurturing of bamboo forest and local community development
Love river trip Ou-okagawa [Yokohama-shi, Kanagawa]	Love river trip Ou-okagawa scout’s forest
Kuretake-cho Kisaragi society (senior group) [Tsuruga-shi, Fukui]	Greenery for the community: creation of a pleasant and affluent space
YATA community [Tokoname-shi, Aichi]	Extending the line of cherry trees, continuing a street of cosmea

Organization name	Project name
Yokkaichi municipal Tokiwa Nishi elementary school PTA [Yokkaichi-shi, Mie]	Improvement of Yoshidayama forest: Let’s recover the soul of the landscape for Japanese people
Society to restore Hinaga plum grove and Tojosan [Yokkaichi-shi, Mie]	8th tree planting festival for restoring Hinaga plum grove and Tojosan
Specified NPO, Yamanba society [Omi-cho, Sakata-gun, Shiga]	Program to support nature-based experience and environmental education, Yamanba no Mori Gakuen
Council for operating Shinjo plaza [Kishiwada-shi, Osaka]	Let’s create Shinjo plaza!
Society to nurture community woodlands [Matsue-shi, Shimane]	Improvement of “Matsue city nature learning forest” and preservation of vegetation
Specified NPO, Onomichi pilot club [Onomichi-shi, Hiroshima]	Let’s make Jodoji yama a new major cherry blossom viewing spot!
Shuto-cho community woodlands society [Shuto-cho, Kuga-gun, Yamaguchi]	Regeneration of devastated community woodland
Society to protect Asahiya forest park [Takase-cho, Mitoyo-gun, Kagawa]	Project to plant maple trees in Asahiya forest park
Local residents’ society to protect and nurture pine trees in Senbon-matsubara [Kochi-shi, Kochi]	Activities to protect and nurture pine trees in Senbon-matsubara in Tanezaki area in Kochi city
Fukuoka green helpers society [Maebara-shi, Fukuoka]	Rearing of seedlings to be used for tree planting for the regeneration of community woodlands
Ippe society [Ishikawa-shi, Okinawa]	Greenery and flowers for the local community
Society to turn our hometown into a paradise [Tarama-son, Miyako-gun, Okinawa]	Creation of a paradise filled with greenery and flowers, Campaign to plant 10,000 trees on Tarama Island

### Startup Grants

Organization name	Project name
Haboro council for creating a natural space through everyone’s efforts [Haboro-cho, Tomamae-gun, Hokkaido]	Local residents creating a “Haboro biotope” with the aim of developing a community with bountiful nature
Society to create a forest inhabited by Japanese pygmy woodpeckers [Nishi Tokyo-shi, Tokyo]	Development and organizing events concerning Japanese pygmy woodpecker’s forests
Team to protect Tonoyama forest [Yokohama-shi, Kanagawa]	Preservation of Shishigaya citizens’ forest (backyard forest of Yokomizo yashiki)
Yagurawaki area in Hashimoto city [Hashimoto-shi, Wakayama]	“Creating a community with abundant blooms with the power of senior citizens”, “Local revitalization by the power of senior citizens”

### Amount of Donations for Disaster Relief

Disasters in FY 2004	Monetary donations (including donations from employees)	Gifts of goods in token of sympathy and relief goods
Disaster from heavy rain (disasters in Niigata and Fukushima prefectures/ disaster in Fukui prefecture/ Typhoons nos. 15, 16, 21 and 23)	¥600.000	Goods worth ¥23.6 million
Niigata Chuetsu earthquake	¥10.4 million	Goods worth ¥15 million
Earthquake off-shore west of Fukuoka prefecture	—	Goods worth ¥230.000
Earthquake off the Sumatora Island	¥16.86 million	Goods worth ¥2.44 million

# Environment, Safety, and Quality Management Data

## Philosophy and Policies Regarding the Environment and Safety

### Philosophy Regarding the Environment and Safety

Kao is committed to a responsible approach to the environment and safety throughout the entire lifecycle of products, from product development, production and distribution, to consumption and final disposal. At the same time, Kao endeavors to contribute to sustainable development and a higher quality of life for people all around the world.

### Policies Regarding the Environment and Safety

- 1. Maintain employees' health and safety and improve operational safety**  
Improve the working environment so that employees can work in a healthy and safer environment, eradicate occupational accident, eliminate the potential risks, and maintain safe operations. Provide regular training to employees on safe work practices and in preparation for emergencies.
- 2. Develop products with attention to the environment and safety**  
Assess environment and safety aspects throughout the entire life cycle of the products, from manufacture through disposal, when developing products and technologies. Offer products with a lower environmental burden and ensure safe usage for consumers, providing appropriate information i.e. instructions regarding proper use, cautions.
- 3. Save resources and energy and reduce waste**  
To protect the global environment, develop technologies at the product design stage, which address the issues of energy and resource saving and the

reduction of waste, raise productivity in terms of resources and energy, reduce waste and byproducts, reuse and recycle resources and energy.

### 4. Promote human safety in the community and take a responsible approach to environmental conservation

Proactively implement environmental measures as a community member to improve safety for people in the community and conserve the environment. Solve issues that adversely influence the environment and safety responsively and without delay.

### 5. Comply with laws and internal controls

Comply with relevant laws and bylaws in all business activities, set and follow the Company's own code of behavior.

### 6. Provide adequate training

Consistently promote training on environment and safety issues to employees, raise each individual's awareness of their personal responsibility, from management to regular employees.

### 7. Conduct evaluations and improve credibility in the community

Conduct regular audits and self-evaluation to continuously improve activities in the PDCA cycle.

### 8. Disclose information and improve credibility in the community

Proactively disclose environment, and safety policies and data, and improve credibility in the community through open & bilateral communication.

## Status of ISO Certification

ISO9001 (Japan)		Date of certification
Kawasaki Plant		September 2001
Sumida Office	Prestige Cosmetic Business	November 2001
Tochigi Plant		November 2001
Toyoashi Plant	Consumer Product Division, Personal Care	October 2001
	Binder for casting	January 2003
Sakata Plant		April 2002
Wakayama Plant	Consumer Product Division, Personal Care	July 2002
	Consumer Product Division, Fabric & Home Care	July 2003
	Chemical Products	July 2003
Ehime Sanitary Products Company, Limited		February 2003
Kashima Plant	Chemical Products	July 2003
ISO9000 series (Overseas)		Date of certification
Chemical Products	Kao Corporation S.A.	July 1995
	Kao Chemicals GmbH	August 2001
	Kao Specialties Americas LLC	November 2000
	P.T. Kao Indonesia Chemicals	April 2004
	Pilipinas Kao, Inc.	June 2003
	Kao Chemical Corporation Shanghai	June 2003
	Fatty Chemical (Malaysia) Sdn. Bhd.	July 1997
	Kao Industrial (Thailand) Company Limited	December 1997
	Kao Oleochemical (Malaysia) Sdn. Bhd.	January 2005
	Kao Plasticizer (Malaysia) Sdn. Bhd.	January 2005
Personal Care	Kao Corporation Shanghai	November 1999
	P.T. Kao Indonesia	January 2005
Fabric and Home Care	Kao (Taiwan) Corporation	September 1998
	Kao Corporation Shanghai	March 2003
	P.T. Kao Indonesia	November 2003
Feminine Care and Baby Care	Kao (Taiwan) Corporation	June 1997
	Kao Corporation Shanghai	March 2003

ISO14001 (Japan)		Date of certification
Kashima Plant		December 1998
Tochigi Plant, Tochigi Research Laboratories		October 1999
Ehime Sanitary Products Company, Limited		December 1999
Wakayama Plant, Wakayama Research Laboratories		February 2000
Sumida Office, Tokyo Plant, Tokyo Research Laboratories		April 2000
Toyoashi Plant		December 2000
Kawasaki Plant		March 2001
Sakata Plant		April 2001
ISO14001 (Overseas)		Date of certification
Kao (Taiwan) Corporation		September 1998
Kao Chemicals GmbH		August 2001
Kao Corporation Shanghai		June 2002
Kao Chemical Corporation Shanghai		June 2002
Kao Corporation S.A.		February 2003
Kao Specialties Americas LLC		March 2003

## Results of Internal Audit in FY 2004

	Production & Engineering Division	R&D, Business, Corporate	Affiliates
No. of divisions audited	8	11	3
No. of questions	425	303	51
No. of items requiring continued observation	63	35	9
Average evaluation score (5 point scale)	4.7	4.7	4.1

## Training Provided to Production and Engineering Division in FY 2004

Name of training course	Objectives	Number of participants
Techno school	Fostering of operational engineers	18
Basic course of operation	Fostering junior factory operators	22
Engineer <i>juku</i>	Fostering of junior and mid-level engineers	21
Engineer's school	Fostering of mechanical engineers	6



# Environmental Accounting

## Method of aggregation for FY 2004 environmental accounting

- 1) The method applied to this accounting complies with the Ministry of the Environment's "Environmental Accounting Guidelines 2005". It also refers to the "Environmental Accounting Guidelines for Chemical Companies (November 2003)" by the Japan Chemical Industry Association.
- 2) The accounting covers Kao Corporation and its four domestic subsidiaries (Kao Hanbai Company, Ltd., Kao Cosmetics Sales Co., Ltd., Ehime Sanitary Products Company, Limited, and Kao-Quaker Company, Limited).
- 3) The period is from April 1, 2004 to March 31, 2005.

### Environmental Conservation Cost (Categories Corresponding to Business Activities)

(Unit: million yen)

Categories	Key Activity and the Outcome	Investment	Cost*1
(1) Business area costs		1,337	3,790
Breakdown			
1) Pollution Prevention Cost	Air and water pollution prevention	773	1,673
2) Global Environmental Conservation	Energy conservation	184	151
3) Resource Circulation Cost	Resource conservation, waste treatment and disposal	380	1,966
(2) Upstream/Downstream Cost	Plant and equipment for environmentally-friendly products, containers and packaging recycling	466	2,838
(3) Administration Cost	Acquisition and maintenance of ISO certification, environmental publicity, tree planting within work sites	16	897
(4) R&D Cost	Environmentally-friendly R&D	168	1,883
(5) Social Activity Cost	Natural environmental conservation and tree planting activities outside work sites, donations	0	112
(6) Environmental Remediation Cost		-	0
Total		1,987	9,519

### Environmental Conservation Benefit

Categories	Environmental Performance Indicators (units)	FY 2003	FY 2004	The difference*2
Related to Resources Input into Business Activities	Energy input volume into production activity (crude oil equivalent, kl)	203,667	208,402	4,735
	Input volume of water (1,000 t)	11,657	11,189	▲468
	Volume of greenhouse gas emissions (CO <sub>2</sub> equivalent: 1,000 t)	465	482	17
	SO <sub>x</sub> emissions volume (t)	52	56	4
	NO <sub>x</sub> emissions volume (t)	907	894	▲13
Related to Waste or Environmental Impact Originating from Business Activities	Wastewater volume (1,000 t)	9,466	9,299	▲167
	COD emissions volume (t)	77	77	0
	Waste emissions volume (1,000 t)	29	32	3
	Final waste disposal volume (1,000 t)	3	2	▲1
	Volume of emissions of chemical substances subject to PRTR to the air (t)*3	3	5	2

### Economic Benefit Associated with Environmental Conservation Activities

(Unit: million yen)

	Details of Benefit	Amount*4
Selling out of valuable resources	Sales value of valuable resource and fixed assets	321
	Reductions in energy costs through energy conservation	349
Cost reduction	Reductions in costs through resource saving	1,560
	Cost reduction amount (Maintenance costs, etc., of environmentally-friendly equipment)	31
	Total	2,262

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

(Unit: million yen)

Categories	Details of measures	Investment	Cost*1
(1) Cost related to global warming measures	Energy conservation	184	151
(2) Cost related to ozone layer protection measures		0	0
(3) Cost related to air quality conservation measures	Air pollution prevention, prevention of dust pollution, malodor prevention	284	537
(4) Cost related to noise and vibration	Prevention of noise	23	18
(5) Cost related to environmental conservation measures for the aquatic, ground, and geologic environments	Prevention of water pollution	466	1,118
(6) Cost related to waste product and recycling measures	Resource saving, industrial waste volume reduction, recycling	846	4,804
(7) Cost related to measures for reducing chemical risk and emissions	R&D on products and production	168	1,883
(8) Cost related to natural environmental conservation	Natural environmental conservation and tree planting activities outside work sites, donations	0	112
(9) Other costs	Acquisition and maintenance of ISO certification, environmental publicity, tree planting activities within work sites	16	897
Total		1,987	9,519

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

		FY 2002	FY 2003	FY 2004
(1) Environmental Conservation Cost	Investment (million yen)	3,445	1,839	1,987
	Cost (million yen)	9,204	9,181	9,519
	Energy input volume in production activity (crude oil equivalent, kl)	216,971	203,667	208,402
	Input volume of water (1,000 t)	12,373	11,657	11,189
	Volume of greenhouse gas emissions (CO <sub>2</sub> equivalent: 1,000 t)	518	465	482
(2) The Environmental Performance Indicators Concerning Environmental Conservation Benefit	SOx emissions volume (t)	70	52	56
	NOx emissions volume (t)	958	907	894
	Waste water volume (1,000 t)	10,365	9,466	9,299
	COD emissions volume (t)	83	77	77
	Waste emissions volume (1,000 t)	31	29	32
	Final waste disposal volume (1,000 t)	3	3	2
	Volume of emissions of chemical substances subject to PRTR (t)	15	3	5
(3) Economic Benefit Associated with Environmental Conservation Activities	Actual benefit (million yen)	2,119	2,061	2,262

\*1: Expense amounts include depreciation costs.

\*2: ▲ represents a decline.

\*3: The amount of emissions to the air of chemical substances subject to PRTR increased in FY 2004 because CFCs are newly included in PRTR substances.

\*4: The amounts of cost reduction represent annual reduction amounts of the items generated in the respective fiscal year.

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

\* The Guidelines by the Ministry of the Environment specify that the profit gained by the sale of valuable resource and fixed assets should be recorded. However, we recorded sales values themselves 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 amount of items generated in that year. Cost reduction amounts to generate over multiple years are not counted in.

# Environmentally-friendly Product Data/ Environmental Performance Data

## Compact-type Products (as of March 2005)

Classification	Total No. of items	Compact-type products		
		No. of items	Rate (%) <sup>*1</sup>	Product names
Powder laundry detergents	4	4	100	Attack, Attack with Bleach, Attack Sheet Type, New Beads
Liquid laundry detergents	5	3	90	Liquid Attack, New Beads Wash & Care, Emal Delicate Wash
Fabric softners	5	4	85	Humming 1/3, Floral Humming 1/3, Humming 1/3 with Disinfectant/Deodorant, Humming Flare
Laundry bleach	6	1	18	Wide Haiter Concentrated Gel
Dishwashing detergents	7	5	87	Family Pure, Family Pure Aloe-in, Family Concentrated, More Concentrated, Family Kyukyutto

## Refill Products (as of March 2005)

Classification	Total No. of items	Refill products		
		No. of items	Conversion rate (%) <sup>*2</sup>	Product names
Liquid laundry detergents	5	5	80	Liquid Attack, Attack Point Cleansing, Emal Delicate Wash, Attack Spray Foam, New Beads Wash & Care
Fabric softners	5	4	89	Humming 1/3, Floral Humming 1/3, Humming 1/3 with Disinfectant/Deodorant, Humming Flare
Laundry bleaches	6	3	79	Wide Haiter, Wide Haiter Laundry Bleach Color Safe, Wide Haiter Concentrated Gel
Starches	4	4	75	Smoother, Keeping, Keeping for Washing Machine, Keeping Style Care
Dishwashing detergents	7	7	48	Family Pure, Family Concentrated, Family, More Concentrated, Family Pure Aloe-in, Family Kyukyutto, Family Pure for the Dishwasher
Household cleaners	22	10	79	Family Sink Cleaner, Family Pure Kitchen Cleaner, Wide Magiclean, Mypet Handy Spray, Mypet Glass Cleaner-Liquid Type, Bath Magiclean Foam Spray, Toilet Magiclean Deodorant and Cleaning spray(2), Allerclean Home Hygiene Spray(2)
Kitchen/household paper products	10	4	88	Kitchen Quickle, Quickle for the Gas Stove, Toilet Quickle, Quickle Wiper Cleaning Kit for Carpet
Pet care	12	1	75	Kao Pet Care Wet Tissues
Body cleansers	9	8	71	Bioré u Powder-in, Bioré u(4), Bioré u Cream-in, Curel Body Cleanser, Bioré u Foam Hand Soap
Shampoos/conditioners	19	5	79	Merit Shampoo, Merit Conditioner, Merit Two-in-one Shampoo, Essential Damage Care Shampoo, Essential Damage Care Conditioner
Facial care sheet	12	1	48	Bioré Makeup Remover Cleansing Cotton
Body care sheets	8	2	54	Bioré Powder Sheet(2)
Hair styling agents	43	7	66	Success Morning Hair Water Gel Water, Success Morning Hair Water Hair Smoothing Mist, Lavenus Hair Water, Liese Water Supply Mint Shower, Liese Speedy Straight Foam, Liese Speedy Perm-Emphasizing Foam, Liese Speedy Moisturizing Foam
Bottom wipes	3	3	87	Merries Skin Care Baby Wipes Cotton-touch Type, Merries Skin Care Baby Wipes Flushable Type, Relief Flushable Bottom-Wipes
Bath additives	18	2	60	Emorica(2)
Hygiene care	4	1	85	Sanina Toilet Paper
Prestige Cosmetics	148	10	82	Sofina Fine Fit Powder, Sofina Fine Fit Face Powder, Sofina Fine Fit Complete Coverage, Sofina Raycious Gradation Powder, Sofina Raycious Ray Blend Powder, Gracesofina Foundation, est the Powder Makeup, est Retouch Loose Powder, Aube Eyeliner Pencil, Aube Eyebrow Pencil

<sup>\*1</sup> Rate: unit-based percentage of compact-type products sold, to total units sold within the product category

<sup>\*2</sup> Conversion rate: unit-based percentage of refill products sold, to total units sold for which refill products are available

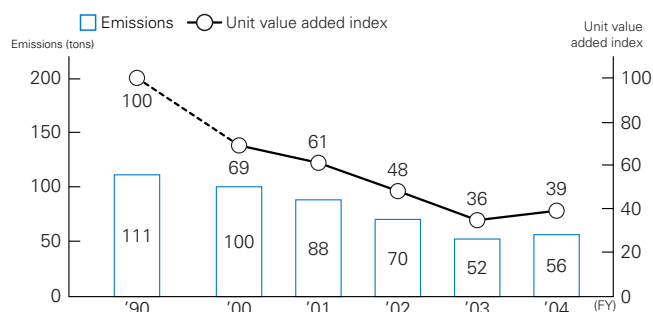
## Replacement Products (as of March 2005)

Classification	Total No. of items	Replacement products		
		No. of items	Conversion rate*3	Product names
Household cleaners	23	5	59	Haiter Mold Remover, Haiter Mold Remover Strong, Magiclean Handy Spray, Magiclean Power Liquid Toilet Cleaner, Mypet for Shine
Laundry bleach	6	1	32	Wide Haiter Foam
Kitchen bleach	3	1	69	Kitchen Foam Haiter
Drain cleaner	1	1	63	Kitchen Wonder Drain Slime Remover
Hair colors	10	10	64	Blaune Semi-permanent Hair Color(8), Blaune Semi-permanent Hair Color for Men
Hygiene care	4	1	75	Sanina Spray

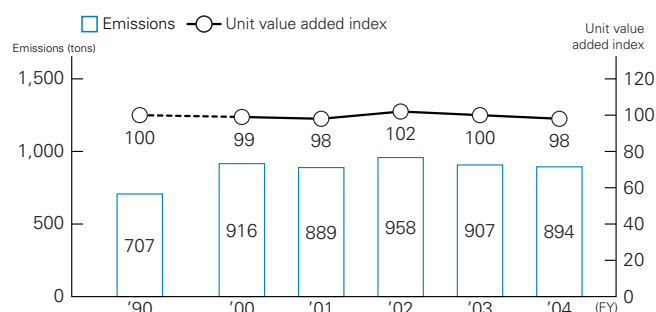
\*3 Conversion rate: unit-based percentage of replacement products sold, to total units sold for which replacement products are available

## Air Pollutant Emissions, Water Pollutant Effluents, Water Consumption and Amount of Effluents

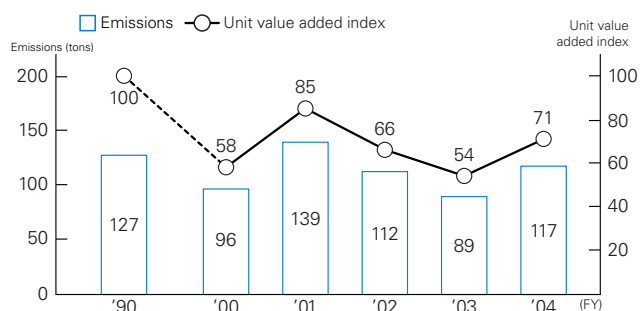
### Trends in SOx Emissions



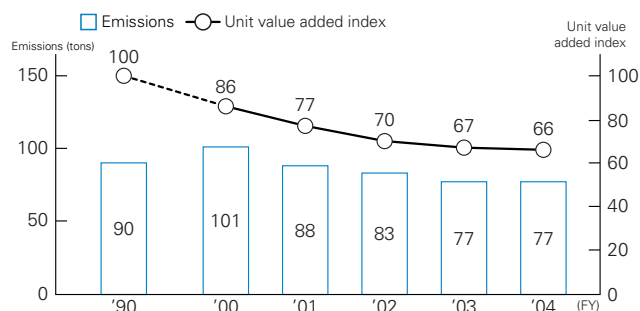
### Trends in NOx Emissions



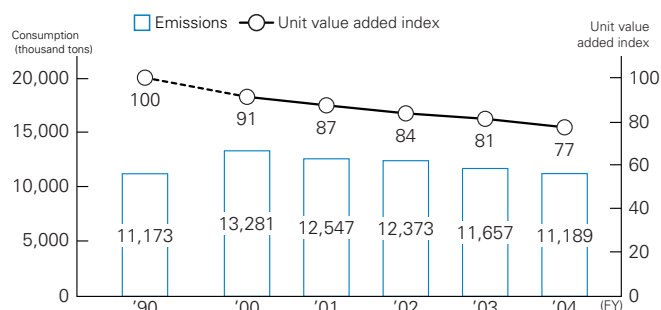
### Trends in Soot and Dust Emissions



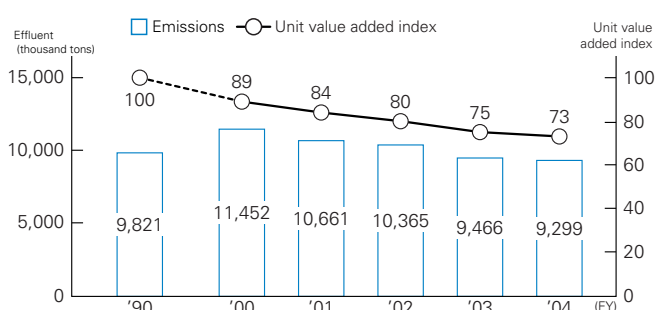
### Trends in COD Emissions



### Trends in Water Consumed



### Trends in Amount of Wastewater Effluents



# Environment Performance Data

## Emission Levels of Substances Subject to PRTR Law (FY 2004): Substances whose annual use levels in each plant were over 1 ton

Cabinet Order No.	Name of substance	(tons/year)		Cabinet Order No.	Name of substance	(tons/year)	
		Amount of emissions to atmosphere	Amount of emissions to public waters			Amount of emissions to atmosphere	Amount of emissions to public Waters
1	Water-soluble zinc compounds	0.0	0.7	177	Styrene	0.0	0.0
2	Acrylamide	0.0	0.0	205	Terephthalic acid	0.0	0.0
3	Acrylic acid	0.0	0.0	207	Copper salts (water-soluble except complex salts)	0.0	0.1
4	Ethyl acrylate	0.0	0.0	224	1,3,5-Trimethylbenzene	0.0	0.0
6	Methyl acrylate	0.0	0.0	227	Toluene	0.5	0.0
7	Acrylonitrile	0.0	0.0	231	Nickel	0.0	0.0
16	2-Aminoethanol	0.0	0.0	232	Nickel compounds	0.0	0.1
17	N-(2-Aminoethyl)-1,2-ethanediamine; Diethylenetriamine	0.0	0.0	243	Barium and its water-soluble compounds	0.0	0.0
21	m-Aminophenol	0.0	0.0	251	Bis-(hydrogenated tallow)-dimethylammonium chloride	0.0	0.0
23	1-Allyloxy-2,3-epoxypropane	0.0	0.0	254	Hydroquinone	0.0	0.0
24	n-Alkylbenzenesulfonic acid and its salts (alkyl C = 10-14)	0.0	0.2	266	Phenol	0.0	0.0
28	Isoprene	0.0	0.0	269	di-n-Octyl phthalate	0.0	0.0
29	4,4'-Isopropylidendiphenol; Bisphenol A	0.0	0.0	270	di-n-Butyl phthalate	0.0	0.0
40	Ethylbenzene	0.0	0.0	272	Bis (2-ethylhexyl) phthalate	0.0	0.0
42	Ethylene oxide	0.1	0.0	273	n-Butyl benzyl phthalate	0.0	0.0
43	Ethylene glycol	0.0	0.0	283	Hydrogen fluoride and its water-soluble salts	0.0	0.0
46	Ethylenediamine	0.0	0.0	292	Hexamethylenediamine	0.0	0.0
54	Epichlorohydrin	0.0	0.0	297	Benzyl chloride	0.0	0.0
56	1,2-Epoxypropane; Propylene oxide	0.6	0.0	298	Benzaldehyde	0.0	0.0
58	1-Octanol	0.0	0.0	300	1,2,4-Benzenetricarboxylic 1,2-anhydride	0.0	0.0
63	Xylene	0.0	0.0	304	Boron and its compounds	0.0	0.0
65	Glyoxal	0.0	0.0	307	Poly (oxyethylene) alkyl ether (alkyl C=12-15)	0.8	0.0
68	Chromium and chromium (III) compounds	0.0	0.1	308	Poly (oxyethylene) octylphenyl ether	0.0	0.0
80	Chloroacetic acid	0.0	0.0	309	Poly (oxyethylene) nonylphenyl ether	0.0	0.0
85	Chlorodifluoromethane; HCFC-22	0.6	0.0	310	Formaldehyde	0.0	0.0
95	Chloroform	0.3	0.0	313	Maleic anhydride	0.0	0.0
96	Chloromethane; Methyl chloride	0.5	0.0	314	Methacrylic acid	0.0	0.0
102	Vinyl acetate	0.0	0.0	318	2-(Dimethylamino) ethyl methacrylate	0.0	0.0
145	Dichloromethane; Methylene dichloride	0.2	0.0	320	Methyl methacrylate	0.0	0.0
166	N,N-Dimethyldodecylamine N-oxide	0.0	0.0		Total	3.7	1.1
176	Organic tin compounds	0.0	0.0	179	Dioxins (unintentionally formed substance, units: mg-TEQ/year)	84.4	4.7

## Breakdown of Emissions to Atmosphere of Major Chemical Substances Subject to PRTR Law

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY2004
Dichloromethane	3.6	0.6	0.1	0.0	0.1	0.2
Chloromethane	50.1	46.9	6.0	0.6	0.5	0.5
Toluene	83.7	25.0	4.5	13.0	0.4	0.5
2-Aminoethanol	2.4	2.0	0.0	0.0	0.0	0.0
Total	140.0	74.5	10.6	13.6	1.0	1.2



# Data on Environmental Burdens by Plants Overseas

(unit: tons)

Name of company	Quimi-Kao S.A. de C.V.	Kao Chemicals GmbH	Kao Corporation S.A.	Kao Brands Company	Kao Specialties Americas LLC
Location:	Guadalajara (Mexico)	Emmerich (Germany)	Barcelona (Spain)	Cincinnati (United States)	High Point (United States)
Activities	Manufacture and sales of surfactants, fatty derivatives	Manufacture and sales of surfactants, fatty derivatives, concrete admixtures	Manufacture and sales of toner, aromatic chemicals, and surfactants	Manufacture and sales of skin care and hair care products	Manufacture and sales of toner and fatty derivatives
CO <sub>2</sub> emissions* <sup>1</sup>	12,900	12,200	60,000	20,700	18,600
Amount of waste discharged	297	1,910	10,879	2,476	886
Final disposal amount of waste	279	0	1,786	1,793	885
SO <sub>x</sub> emissions	1	-	-	105	5
NO <sub>x</sub> emissions	6	-	181	35	10
COD emissions* <sup>2</sup>	7	533	259	-	-
BOD emissions* <sup>2</sup>	-	-	-	252	106

(unit: tons)

Name of company	Zhongshan Kao Chemicals Limited	Kao Corporation Shanghai	Kao Chemical Corporation Shanghai	Kao (Taiwan) Corporation	Kao Vietnam Co., Ltd.
Location:	Zhongshan (China)	Shanghai (China)	Shanghai (China)	Hsinchu (Taiwan)	Bien Hoa (Vietnam)
Activities	Manufacture and sales of urethane materials	Manufacture and sales of facial cleansers, shampoos, detergents, and sanitary napkins, etc.	Manufacture and sales of various industrial surfactants	Manufacture and sales of facial cleansers, shampoos, detergents, sanitary goods, chemical products, etc.	Manufacture and sales of facial cleansers, shampoos, detergents, sanitary napkins, etc.
CO <sub>2</sub> emissions* <sup>1</sup>	1,600	6,500	6,500	102,00	1,100
Amount of waste discharged	662	442	2,095	592	210
Final disposal amount of waste	7	0	0	195	15
SO <sub>x</sub> emissions	2	1	1	2	0.1
NO <sub>x</sub> emissions	1	3	2	2	0.1
COD emissions	0.4	2	1	7	2

(unit: tons)

Name of company	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
Location:	Cagayan de Oro City (Philippines)	Samut Prakarn (Thailand)	Penang (Malaysia)	Cikalang (Indonesia)	Tambun (Indonesia)
Activities	Manufacture and sales of chemical products and derivatives made from coconut oil	Manufacture and sales of facial cleansers, shampoos, detergents, sanitary napkins, and chemical products, etc.	Manufacture and sales of chemical products made from palm kernel oil, soap, lubricants, and plasticizers	Manufacture and sales of facial cleanser, shampoos, detergents, and sanitary napkins, etc.	Manufacture and sales of a variety of industrial surfactants
CO <sub>2</sub> emissions* <sup>1</sup>	39,000	23,500	109,300	8,500	12,900
Amount of waste discharged	356	2,985	4,426	736	453
Final disposal amount of waste	0	1,971	4,424	-	211
SO <sub>x</sub> emissions	30	153	62	5	20
NO <sub>x</sub> emissions	-	13	120	-	0.2
COD emissions	10	11	21	1	9

\*1: Values for CO<sub>2</sub> emissions were calculated using Japan's emission coefficient.

\*2: Effluents draining into local public wastewater treatment plants after primary treatment.

# Data on Environmental Burdens by Plants in Japan

## Wakayama Plant

1334 Minato, Wakayama-shi, Wakayama 640-8580 Japan Tel: +81-73-423-8151

Plant area: 425,000 m<sup>2</sup>

Production items in FY 2004: Laundry detergent, fabric softener, bleach, dishwashing detergent, kitchen bleach, body cleanser, shampoo/conditioner, soap, toothpaste, household cleaner, surfactants, fatty chemical products, etc.

There is a R&D laboratory at the site.

Classification	FY				
	2000	2001	2002	2003	2004
Total production output	755,387	733,964	778,295	787,309	792,743
Greenhouse gas emissions (CO <sub>2</sub> equivalent)	230,234	218,428	219,038	191,031	191,197
Waste generated	59,950	54,750	59,367	59,351	60,962
Waste discharged	9,644	10,170	9,675	9,791	9,907
Final disposal amount of waste	3,009	3,027	2,014	2,066	1,709
SOx emissions	27	23	26	24	25
NOx emissions	286	287	335	284	251
COD emissions	79	70	66	64	64
Dioxins emissions (FY 2004)					
Cabinet order number	Name of substance	(Unit)	Air	Public water	
179	Dioxins	(mg-TEQ)	30.2	4.7	

## Sakata Plant

2-1-18 Ohama, Sakata-shi, Yamagata 998-0064 Japan Tel: +81-234-34-5511

Plant area: 141,000 m<sup>2</sup>

Production items in FY 2004: Pore packs, bath additives, etc.

Classification	FY				
	2000	2001	2002	2003	2004
Total production output	72,796	36,058	19,166	20,702	20,354
Greenhouse gas emissions (CO <sub>2</sub> equivalent)	22,365	14,100	8,654	8,750	9,799
Waste generated	1,860	1,647	2,434	4,686	4,854
Waste discharged	1,860	1,647	1,409	1,800	1,069
Final disposal amount of waste	258	219	250	392	191
SOx emissions	43	26	5	5	7
NOx emissions	40	45	53	76	67
COD emissions	1	1>	1>	1>	1>
Dioxins emissions (FY 2004)					
Cabinet order number	Name of substance	(Unit)	Air	Public water	
179	Dioxins	(mg-TEQ)	54.2	0.1>	

## Tokyo Plant

2-1-3 Bunka, Sumida-ku, Tokyo 131-8501 Japan Tel: +81-3-5630-9000

Plant area: 42,600 m<sup>2</sup>

Production items in FY 2004: Face washer/makeup remover, prestige cosmetics.

There is a R&D laboratory at the site.

Classification	FY				
	2000	2001	2002	2003	2004
Total production output	5,221	4,870	4,872	4,575	4,799
Greenhouse gas emissions (CO <sub>2</sub> equivalent)	12,956	12,286	12,760	11,619	12,606
Waste generated	2,141	1,758	1,783	1,578	1,767
Waste discharged	2,141	1,757	1,783	1,578	1,767
Final disposal amount of waste	161	75	59	49	31
SOx emissions	1>	1>	1>	1>	1>
NOx emissions	1>	1>	1>	1>	1>
COD emissions	1>	1>	1>	1>	1>
Dioxins emissions (FY 2004)					
Cabinet order number	Name of substance	(Unit)	Air	Public water	

There are no facilities subject to the Law Concerning Special Measures Against Dioxins.

Because effluent containing COD drains to public sewage, data for COD reflects subtraction at the sewage treatment plant based on the subtraction rate.

## Kawasaki Plant

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

Tel: +81-44-266-3231

Plant area: 101,000 m<sup>2</sup>

Production items in FY 2004: Laundry detergent, fabric softener, bleach, dishwashing detergent, kitchen bleach, body cleanser, shampoo/conditioner, household cleaner etc.

Classification	FY				
	2000	2001	2002	2003	2004
Total production output	368,760	391,789	397,450	383,753	397,186
Greenhouse gas emissions (CO <sub>2</sub> equivalent)	64,806	72,677	76,445	68,376	71,116
Waste generated	4,596	19,476	19,751	18,003	18,271
Waste discharged	4,560	19,438	5,495	4,176	3,584
Final disposal amount of waste	132	760	198	17	11
SOx emissions	1>	1>	1>	1>	1>
NOx emissions	13	17	23	18	22
COD emissions	4	3	2	2	2
Dioxins emissions (FY 2004)					
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: 186,000 m<sup>2</sup>

Production items in FY 2004: Paper cleaning products, sanitary napkins, baby diapers, adults' diapers, aromatic chemicals, etc.

There is a R&D laboratory at the site.

Classification	FY				
	2000	2001	2002	2003	2004
Total production output	63,153	54,991	55,150	51,071	55,925
Greenhouse gas emissions (CO <sub>2</sub> equivalent)	53,773	52,110	54,101	48,069	50,302
Waste generated	8,075	7,670	8,161	7,242	7,328
Waste discharged	3,902	3,714	4,828	3,811	4,105
Final disposal amount of waste	256	184	75	125	10
SOx emissions	9	18	16	14	12
NOx emissions	300	344	437	418	435
COD emissions	1	2	1	1>	1>
Dioxins emissions (FY 2004)					
Cabinet order number	Name of substance	(Unit)	Air	Public water	
179	Dioxins	(mg-TEQ)	0.1>	0.1>	

## Kashima Plant

20 Higashi-fukashiiba, Kamisu-machi, Kashima-gun, Ibaraki 314-0103 Japan

Tel: +81-299-93-8311

Plant area: 340,000 m<sup>2</sup>

Production items in FY 2004: Edible oil, surfactants, fatty chemicals, etc.

Classification	FY				
	2000	2001	2002	2003	2004
Total production output	236,361	244,995	284,007	292,598	302,678
Greenhouse gas emissions (CO <sub>2</sub> equivalent)	108,853	112,210	113,330	107,425	112,981
Waste generated	24,041	27,592	29,506	30,003	35,489
Waste discharged	3,734	4,686	4,538	4,895	7,645
Final disposal amount of waste	89	162	223	85	49
SOx emissions	14	14	21	7	10
NOx emissions	92	78	75	79	84
COD emissions	15	13	12	10	9
Dioxins emissions (FY 2004)					
Cabinet order number	Name of substance	(Unit)	Air	Public water	
There are no facilities subject to the Law Concerning Special Measures Against Dioxins					

Because effluent containing COD drains to public sewage, data for COD reflects subtraction at the sewage treatment plant based on the subtraction rate.

## Toyohashi Plant

4-51 Akemi-cho, Toyohashi-shi, Aichi 441-8074 Japan Tel: +81-532-23-2711

Plant area: 314,000 m<sup>2</sup>

Production items in FY 2004: Shampoo/conditioner, bath additives, face washer/makeup remover, anhidrotic/deodorant, men's cosmetics, hair cosmetics, hairbrush, hair dying agent, hygiene care products, Nivea-Kao products

Classification	FY				
	2000	2001	2002	2003	2004
Total production output	39,863	33,447	35,803	40,407	48,058
Greenhouse gas emissions (CO <sub>2</sub> equivalent)	9,441	9,273	9,542	9,906	10,757
Waste generated	2,691	2,177	1,795	2,139	2,163
Waste discharged	2,691	2,177	1,609	2,111	2,163
Final disposal amount of waste	404	414	97	12	1
SOx emissions	1	2	1	2	2
NOx emissions	33	33	29	27	30
COD emissions	1>	1>	1>	1>	1>
Dioxins emissions (FY 2004)					
Cabinet order number	Name of substance	(Unit)	Air	Public water	
There are no facilities subject to the Law Concerning Special Measures Against Dioxins					

## Ehime Sanitary Products Company, Limited

6-3 Hiuchi, Saijo-shi, Ehime 793-0003 Japan Tel: +81-897-55-1888

Plant area: 47,800 m<sup>2</sup>

Production items in FY 2004: Paper products for kitchen, paper cleaning products, pet animal care products, sanitary napkins, baby diapers, incontinence/care products, etc.

Classification	FY				
	2000	2001	2002	2003	2004
Total production output	41,076	35,305	40,436	30,126	36,106
Greenhouse gas emissions (CO <sub>2</sub> equivalent)	24,768	23,738	23,621	20,237	23,217
Waste generated	4,386	3,761	4,013	3,456	4,907
Waste discharged	1,225	970	1,360	1,010	1,546
Final disposal amount of waste	155	187	163	5	8
SOx emissions	5	5	1>	1>	1>
NOx emissions	152	84	5	4	6
COD emissions	-	-	-	-	-
Dioxins emissions (FY 2004)					
Cabinet order number	Name of substance	(Unit)	Air	Public water	
179	Dioxins	(mg-TEQ)	0.1>	0.1>	

# Cross-References Between This Report and GRI Guideline Indicators

Vision and Strategy		
1.1	Statement of vision and strategy	P.2-3, 16-17
1.2	Statement from the CEO	P.2-3
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Organizational Profile		
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2.3	Operational structure	P.56
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2.5	Countries in which the organization's operations are located	P.56
2.6	Nature of ownership	P.1, 56
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Report Scope		
2.10	Contact person(s) for the report	Back cover
2.11	Reporting period for information provided	P.1
2.12	Date of most recent previous report	P.1
2.13	Boundaries of report and any specific limitations on scope	P.1
2.14	Significant changes occurring since the previous report	P.56
2.15	Basis for reporting on situations that can significantly affect comparability from period to period and/or between reporting organizations	No important reporting matters
2.16	Explanation of the nature and effect of any re-statement of information provided in earlier reports	No significant changes
Report Profile		
2.17	Decisions to apply GRI principles or protocols in the preparation of the report	Used as reference
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2.19	Significant changes from previous years in the measurement methods applied to key economic, environmental, and social information	P.15, 25, 50
2.20	Policies and internal practices to enhance and provide assurance about accuracy, completeness, and reliability	P.69, Back of front cover
2.21	Policies and current practice with regard to providing independent assurance for the entire report	P.69
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3.15	Principal memberships in associations and organizations	P.56
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3.17	Reporting organization's approach to managing indirect impacts resulting from its activities	
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\* This cross-reference table specifies the pages of the report that are related to respective GRI Guideline requirements and does not guarantee compliance. The characters in blue, "AR", and "—" represent the corresponding sections of the ten principles of the Global Compact, matters dealt with in the annual report, and items that are inapplicable, respectively.

# Independent Report

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## Independent Report

To the Board of Directors of Kao Corporation.

### Our Objective

We have reviewed certain aspects of the Corporate Social Responsibility Report 2005 (the "Report") of Kao Corporation, (the "Company"), referring to Management Research Committee Study Report Issue 13 "Guidelines for Environmental Report Assurance Engagements (Interim Report)" published by the Japanese Institute of Certified Public Accountants. The report is the responsibility of the Company's management. Our objective is to express an opinion regarding primarily the accuracy of material information contained in the Report, based on our independent review and to the extent of the procedures performed.

### Our procedures

We performed the following procedures with respect to the Report:

- (1) Concerning the FY2004 information contained in the Report, consideration of the reasonableness and accuracy of collection and methods for compiling the information, by means of comparison of compiled data with source information, and by means of discussions with, and inquiries to the Company's persons collecting and/or compiling the information, and
- (2) Concerning the FY2004 information contained in the Report, discussions with, and inquiries to the Company's persons preparing the information and their supervisors, reading and comparison of the relevant minutes of the meetings of the Company and the Company's regulations as well as documents regarding ISO, site visits, and check and/or comparison of the information contained in the Report with other available internal and external materials.

### Our conclusions

Based on our review, our conclusions are as follows:

- (1) The FY2004 information contained in the Report is properly compiled from the data prepared by the Company and its Group companies referred in the Report in relation to their daily operations,
- (2) The FY2004 information contained in the Report is consistent with the supporting data obtained during our review.

*Deloitte Environmental Research Institute Ltd.*  
August 10, 2005

SEAL OF  
Deloitte Environmental Research Institute Ltd.

## Supplementary Explanation on the Procedure for Preparation of the Independent Report







<http://www.kao.co.jp/en/>

**Kao Corporation**

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CSR Report is also available at Kao's Web site.  
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