



CSR Report 2008

2007.04.01 – 2008.03.31

Kao Corporation



Scope of Reporting

Organizations covered

In general, this report covers the activities of the Kao Group*.

Where the scope of data is different, it is specified in the text.

Period covered

Performance data pertains to fiscal 2007 (April 1, 2007 to March 31, 2008). Data on occupational health and safety, as well as on overseas group companies covers the calendar year 2007 (January 1 to December 31, 2007). Some fiscal 2008 activities are also included.

Independent review

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

Activities covered

The report covers CSR activities in relation to the business units described on [page 5](#).

Detailed data on economic performance is available in our Annual Report 2008 (issued in late July 2008).

Issuing period

Previous report issued in July 2007

Next report scheduled for issue in July 2009

Guidelines referenced

- GRI 2006 Sustainability Reporting Guidelines
- Environmental Reporting Guidelines (2007) and Environmental Accounting Guidelines (2005) by the Ministry of the Environment of Japan
- Environmental Accounting Guidelines for Chemical Companies (November 2003) by the Japan Chemical Industry Association

* Kao Corporation and its consolidated subsidiaries.

The specific organizations within the scope of this report are listed on the following Web site.



<http://www.kao.co.jp/en/csr/report/index.html>

CSR Report 2008 Policy

Kao reports its CSR activities via two different media: this booklet and the Kao Web site.

Basic Editorial Policy

This report documents Kao's CSR policies and the progress made on its CSR activities.

Kao issued its first Environment, Safety and Health Report in 1998. In 2005, we upgraded to a CSR report that introduced our business operations from the viewpoint of corporate social responsibility (CSR), disclosing and supplying information in response to the interests and concerns of various stakeholders.

In this report, we describe the policies and details of our day-to-day CSR activities promoted in accordance with The Kao Way, along with their progress.

Structure of This Report

This report has been divided into three sections, each section forming one chapter.

The first chapter deals with The Kao Group's "CSR Management System," the second, "Responsibilities to Stakeholders," describes various stakeholder-related programs and chapter 3, "Environmental Activities" reports on our aims regarding environmental conservation activities and the progress and results of these activities.

For greater readability, larger fonts have been employed for this year's report. The report also uses a universal design font as in the previous issue.

Feature Reports

Two issues of growing concern in society

As well as the contents described above, this year's report includes a special Feature Reports section, which describes activities aimed at addressing two of the biggest issues of growing concern in society.

The first Feature Report details our activities aimed at preventing global warming, a problem of growing interest, during this first commitment period of the Kyoto Protocol.

The second deals with our quality assurance activities and the delivery of safe and secure products in the light of recent incidents involving misrepresentation and poisoning from contaminated food in and outside Japan.

We have chosen these topics based on dialogues with stakeholders.

Reference to the Web site

All reporting and disclosure items related to the Kao Group are available on our Web site.

As the scope of the Kao Group's CSR activities expands, the amount of information included in the hardcopy version of the CSR report increases every year. This has led to some readers commenting that they were discouraged by the report's excessive length. In response to this feedback, information contained in the hardcopy version of CSR Report 2008 mainly relates to material issues that have attracted the interest of society or for which disclosure is frequently requested, as well as activities where remarkable progress has been made. Any information concerning the Kao Group's CSR activities which can not be included in the hardcopy report can be found on the Kao Group Web site.



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As well as steadfastly fulfilling our basic corporate social responsibilities (CSR), we actively pursue and promote CSR activities aimed at enhancing our corporate value.

Can you give an overview of the Group's business activities in fiscal 2007?

In fiscal 2007, the Kao Group achieved solid results as targeted in the initial plan, driven by our enhanced ability to offer high-value-added products, despite costs increasing due to rises in material prices. Last year, we reorganized our business segments into four new business units (Beauty Care, Human Health Care, Fabric and Home Care and Chemicals). This allowed us to further leverage the strengths of the Kao Group, which has been reflected in our financial results. Moreover, for the past three years we have been promoting an innovative initiative called the "Asia Harmonization Program" throughout Asia, including Japan, a region that has great growth potential. This initiative got off to a good start and since then the underlying trend has been up.

In such a management climate, how has Kao shaped its CSR activities?

The Kao Group is aiming for the kind of CSR activities that resonate with a variety of stakeholders through our business, or *Yoki-Monozukuri*. To this end, for the past three years the CSR Committee, which I myself preside over, has examined the CSR activities actually implemented at Kao on a day-to-day basis and discussed what further activities are required from the viewpoint of society. Achievements by the Committee include the participation in international initiatives such as the UN Global Compact and a transition from green procurement to CSR-based procurement. Furthermore, the Committee conducted ongoing discussions in an effort to identify anew the core CSR activities unique to the Kao Group, with the aim of further promoting these activities. As a result of these discussions, we decided to make the thorough implementation of "basic CSR activities"—that is, activities in the areas of corporate governance, internal control, compliance, risk management, human resource development, environmental conservation, occupational safety and quality—mandatory for the entire Kao Group. We also decided to promote "CSR activities that enhance corporate value" based on these basic CSR activities.

To help focus our implementation of specific CSR activities, we created the slogan: "Contributing to cleanliness, beauty and health for people and the earth through *Yoki-Monozukuri* (see page 6)." Our priority is to focus more resources on the development of



products with the lowest possible impact on the environment as well as those providing solutions to problems faced by our society. From fiscal 2008, we intend to hold even more vigorous discussions at the CSR Committee with a view to expand existing CSR activities through *Yoki-Monozukuri*, instill a CSR mind-set among employees and achieve the aims of our priority activities.

What is Kao doing to help the environment?

In 2008, Japan hosted the Hokkaido Toyako Summit. The year 2008 also witnessed the start of the first commitment period of the Kyoto Protocol. With no time to lose in addressing global warming, we must push ahead with measures to prevent global warming at both national and global levels. Against this backdrop, Kao promotes environmental conservation with due consideration to the impact of our business activities on the global environment throughout all phases, from product planning and development to use, consumption and disposal. We also promote products that conserve resources and support environmental conservation activities undertaken by local communities. We believe that it is important for the Group to not only undertake these efforts but to do so consistently. On an item-by-item basis, we will ensure that our products comply with our self-imposed "standard for environmentally conscious product design," in an effort to further reduce impacts on the environment. At the same time, technological innovation is essential. We are determined to reinforce fundamental environment-related research activities to develop new technologies and materials that can be used in products to minimize environmental impacts.

How do you define the role of employees in promoting CSR activities?

Most of our CSR activities should be implemented in the course of day-to-day activities. In this sense, each employee of the Group plays a major role in our CSR activities.

Certainly, in terms of the general direction of activities, policies formulated by the management are important. However, it is employees that translate such policies into actual activities. I believe it is important for our employees to have a good awareness and understanding of current social issues and to discuss

how such issues can be addressed in the performance of their duties. In other words, they should think about what products should be developed to help create a sustainable Earth and society.

This is the approach Kao has continuously maintained for over a century and it has played a big part in our success over the years. By practicing The Kao Way (see page 6) on a daily basis, we share the understanding of the inherited value throughout the Group so that it may be preserved for the future.

What are your goals for 2008?

I have defined fiscal 2008 to be the year the Kao Group makes great advances into Asia. This is part of the Kao Group's commitment to becoming a truly global company. It is certainly important for each group company to exercise consumer-driven *Yoki-Monozukuri* to win the support of consumers/customers in each country or region. At the same time, we must aspire to be a good and respected corporate citizen in each area in which the company operates.

In 2007 Kao was selected as one of the World's Most Ethical Companies* and was also included in internationally renowned investment indexes such as the FTSE4 Good Global Index, which recognizes corporate efforts for sustainability. These external and independently assessed measures of the Kao Group's efforts and success are of course very gratifying. In recent years, the way companies approach CSR has risen in importance as a factor that determines the success of business operations and enhances corporate value. We are committed to continue to steadily implement The Kao Way in fiscal 2008 to increase our contribution to society and advance our efforts to become a truly global player.

*Program started in 2007 by the American publication *Ethisphere Magazine*. The program evaluated more than 5,000 companies throughout the world in terms of corporate ethics and named 92 companies as the World's Most Ethical Companies.

July 2008

President & CEO
Chairperson, CSR Committee
Kao Corporation

Motoki Ozaki



Cleanliness, Beauty and Health Every Day

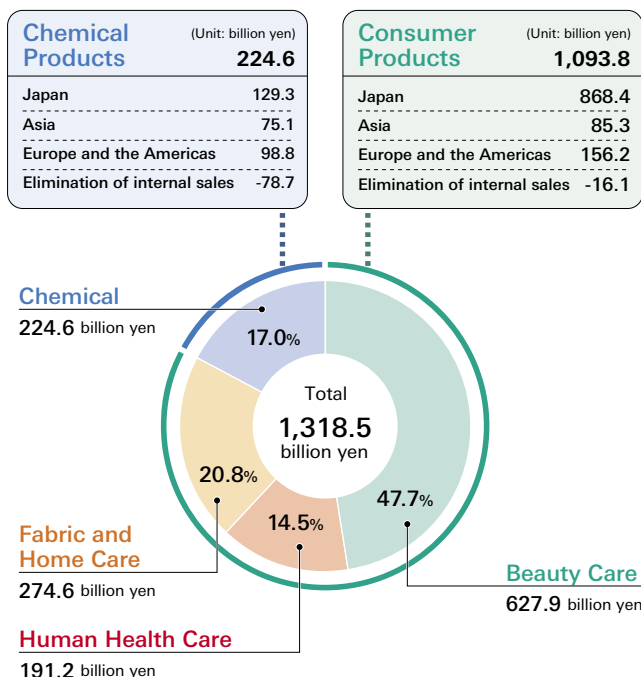
Profile

Since its foundation in 1887, Kao has operated in such a way that allows it to contribute to society under the principle of *Yoki-Monozukuri*, which is based on the viewpoint of the consumer / customer. Beginning with *Kao Soap*, a quality toiletry soap launched on October 17, 1890, our product offerings have expanded to daily consumer products, such as detergents, shampoos and sanitary products, as well as prestige cosmetics and food products for healthy lifestyles. Also as a manufacturer of chemical products, we supply environmentally friendly industrial chemicals with enhanced functions and performance to industries all over the world. Our overseas group companies are producing and selling products that cater to the needs of their local communities and industries, thus supporting the principle of cleanliness, beauty and health every day.

Company Outline (As of March 31, 2008)

Company Name:	Kao Corporation
Representative:	Motoki Ozaki, President & CEO
Head Office:	14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo
Founded:	June 19, 1887
Incorporated:	May 21, 1940
Capital:	85.4 billion yen
Number of Employees:	5,742 (32,900 on a consolidated basis)

Breakdown of Consolidated Sales



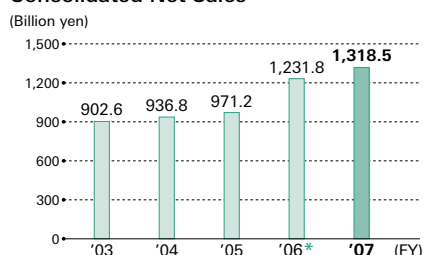
*1 Figures are rounded down to the nearest 0.1 of a billion yen.

*2 Sales in the chart do not include internal sales within the Kao Group.

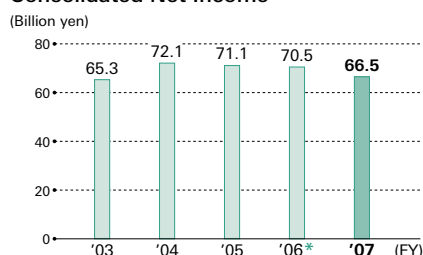
*3 Eliminations of internal sales are eliminations between regions or business units.

Key Management Indicators (*Kanebo Cosmetics included since fiscal 2006)

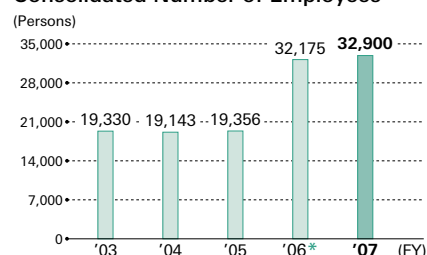
Consolidated Net Sales



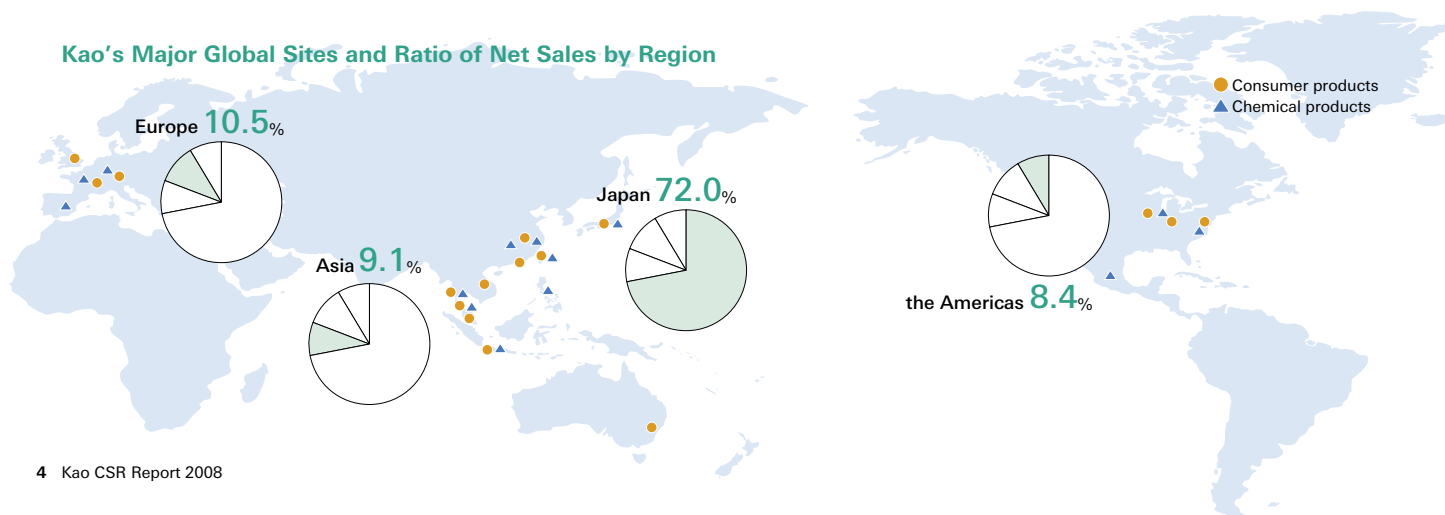
Consolidated Net Income



Consolidated Number of Employees



Kao's Major Global Sites and Ratio of Net Sales by Region



Through Four Business Units

The Kao Group has engaged in planning, development, manufacture and sale of products through the following four business units since April 1, 2007.

Beauty Care Business Unit

Responding in total to the desire to be beautiful

- **Prestige cosmetics** (Counseling cosmetics, self-selection cosmetics)
- **Premium skin care products** (Soaps, facial cleansers, body cleansers)
- **Premium hair care products** (Shampoos, conditioners, hair styling agents, hair coloring agents)



Human Health Care Business Unit

To make every day more comfortable and healthier
—daily health care for the mind and body

- **Food and beverage products** (Cooking oils, beverages)
- **Sanitary products** (Sanitary napkins, diapers)
- **Personal health products** (Bath additives, oral care products, men's products)



Fabric and Home Care Business Unit

Products to make daily life easy and more comfortable

- **Fabric care products** (Laundry detergents, fabric treatments)
- **Home care products** (Kitchen cleaning products, house cleaning products, paper cleaning products, commercial-use products)



Chemical Business Unit

Kao's innovative and unique products and services,
helping to build the industries of tomorrow

- **Oleo chemicals** (Fatty alcohols, fatty amines, fatty acids, glycerin, commercial-use edible fats and oils)
- **Performance chemicals** (Surfactants, plastics additives, superplasticizers for concrete admixtures)
- **Specialty chemicals** (Toner and toner binders for copiers and printers, ink and colorants for inkjet printers, fragrances and aroma chemicals)



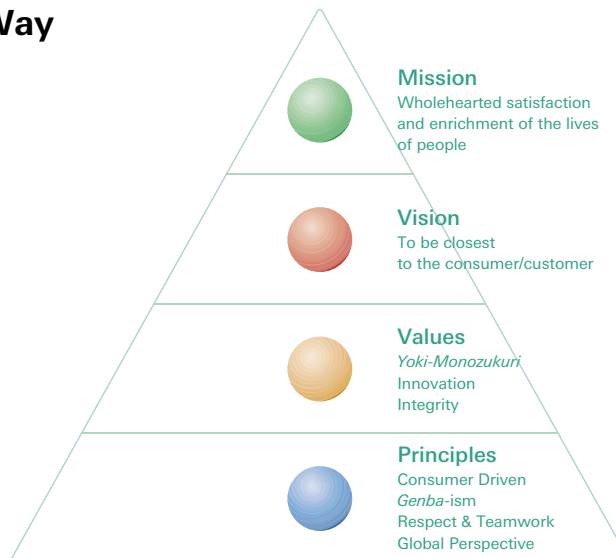
Striving for the wholehearted satisfaction and enrichment of the lives of people

Carrying out all our business activities under the basic principles of The Kao Way

In October 2004, the Kao Group established The Kao Way to express our corporate philosophy. It is the foundation of our corporate activities. The Kao Way clearly describes Kao's unique corporate culture and spirit of enterprise. Since then, we have put the spirit of *Yoki-Monozukuri*, stated in the Values of The Kao Way, into practice in our day-to-day business activities.

While acknowledging relationships with various stakeholders, the Kao Group's CSR activities aim at demonstrating this spirit on a continuous basis in all of our corporate activities, including pursuing economic fairness, making ceaseless efforts to solve environmental problems and fulfilling our social obligations.

The Kao Group is committed to contributing to the wholehearted satisfaction and enrichment of the lives of people globally through the implementation of The Kao Way.



Web Full text of The Kao Way:
<http://www.kao.co.jp/en/company/kaoway/index.html>

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 stakeholders and contributing to the sustainable development of society.

Values

<i>Yoki-Monozukuri</i>*	Fusing Needs & Seeds Using Abilities <i>Yoki-Monozukuri Cycle</i>
Innovation	Continuous Improvement & Innovation Never being Satisfied with the Status Quo Difficulties are Opportunities
Integrity	Respect, Fairness, Sincerity & Diligence Behaving Lawfully & Ethically Responsible Corporate Citizenship

Principles

Consumer Driven	The Consumer is Our First Priority Be Close to the Consumer Communicate with the Consumer
<i>Genba-ism</i>*	Understand the Customer <i>Genba</i> Unification through Knowing <i>Genba</i> Inspiration from <i>Genba</i>
Respect & Teamwork	Respect Diversity Maximize Individual Capabilities & Performance Enhance Active Communication Cooperate with Business Partners
Global Perspective	Understand Local Needs Develop Suitable Local Business Operations Be Open to New Ideas Global Optimization

* *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."

* *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.

TOPICS

CSR Strategy Formulation Project implemented to develop a CSR management vision in accordance with The Kao Way

Kao implemented a CSR Strategy Formulation Project from July to September 2007 to promote groupwide CSR activities in accordance with its mid- and long-term strategies.

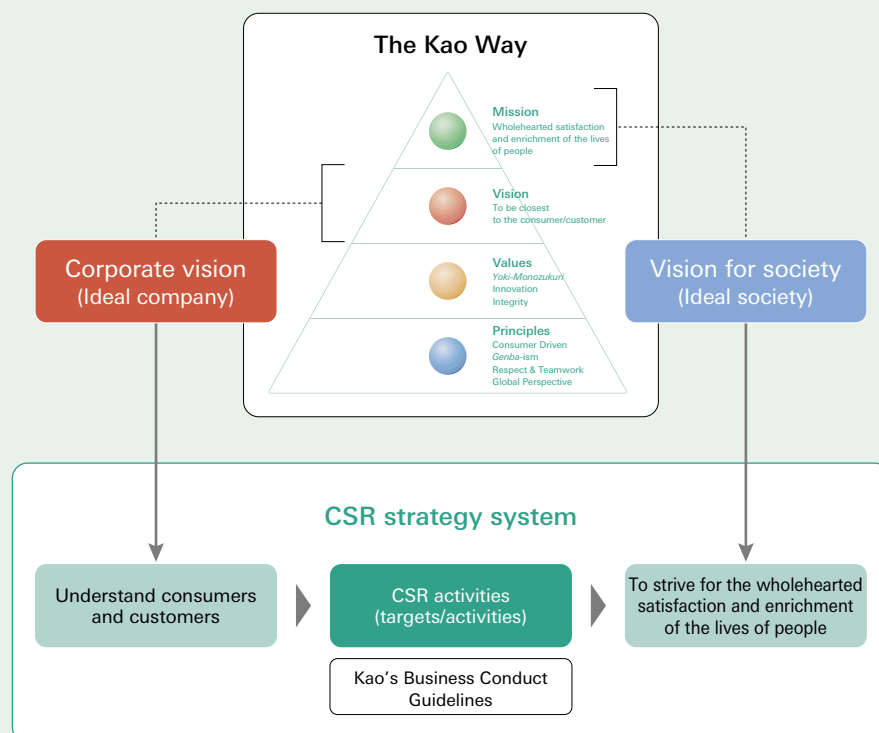
While the CSR Department serves as a secretariat, junior employees from 14 divisions of the company were called to be members of the project. They sometimes attended retreats where they discussed the following themes: "How should we think about The Kao Way from the viewpoint of CSR?" "What CSR activities will help both society and the Kao Group grow in a sustainable manner?" and "What CSR activities Kao should give priority to?" As a result of their efforts, they presented the first draft of the CSR strategy.

Priority issues pointed out by the first draft were the development of environmentally friendly products or products that offer solutions to social problems and raising CSR awareness among employees.

In the future we will continue to identify specific areas and quantitative targets of activities to ensure CSR strategies pervade the entire Kao Group.



Corporate Philosophy and CSR Activities Program



The Mission stipulated in The Kao Way is interpreted as providing a blueprint for an ideal society or "a vision for society," while the Vision described in The Kao Way refers to an ideal company or "a vision for the company." We have defined all Kao Group's activities that are made on the basis of our "corporate vision" with the aim of realizing the "vision for society" as our CSR activities.

CSR Activities Based on Continuous Communication with Stakeholders

The Kao Group considers regular, continuing and comprehensive dialogues with all stakeholders to be an important part of our efforts to promote our CSR activities. These dialogues help us to better understand the perspectives, sentiments and expectations of a variety of stakeholders in regard to

Kao's products and services, as well as our corporate activities and individual employee conducts. By steadily and accurately accommodating our stakeholders' expectations, we aspire to contribute to the wholehearted satisfaction and enrichment of the lives of people.

•... Main communication opportunities



CASE STUDY

Case 1 Sanitary napkins improved by responding to the needs of Asian women

Market research and consumer feedback revealed that many Asian women worried about menstrual blood leakage and looked to menstrual products for reassurance. In response, in 2000, Kao released the sanitary napkin *Laurier Super Guard* in the Asian market. Since then, the product has undergone a series of improvements and its line-up has expanded. In 2007, we launched an improved *Laurier Super Guard* providing a better fit that ensures absorbency in any posture.

Kao will continue to dedicate itself to *Yoki-Monozukuri* that responds to the needs of our consumers all over the world.



Laurier Super Guard launched in Thailand

Case 2 Encouraging male employees to take child-rearing leave for the healthy development of the next generation

Responding to requests and views of employees, Kao has shown its support for ensuring the healthy development of the next generation through the equal participation of both male and female parents. In October 2007, we organized a campaign to encourage male employees to take advantage of our child-rearing leave program. As a part of this campaign, Wakayama Plant held a forum titled "Development of the Next Generation," at which invited guest Professor Moriho Hirooka of Chuo University, spoke about company support for child rearing. Through these and similar activities we are actively working toward enhancing employees' awareness and understanding of the program.



Development of the Next Generation forum at Wakayama Plant

Case 3 Participation in National Consumer Forum on safe and secure living

In December 2007, Kao participated in the National Consumer Forum, organized by the National Consumer Affairs Center of Japan, as the only corporate speaker. The forum is a venue for reporting consumer affairs activities and opinion exchange among local governments, consumer organizations and NPOs. The theme of the forum was "How to ensure safe and secure living—effective cooperation among consumers, governments and businesses." Based on this theme, Kao reported on its efforts to communicate regularly with consumers and its incorporation of consumer opinions in *Yoki-Monozukuri*. It also reported on consumer surveys Kao conducted in 2007. In addition, we obtained information about the expectations participating organizations have regarding the role of companies in consumer affairs.



Reporting on our consumer surveys at the 2007 National Consumer Forum

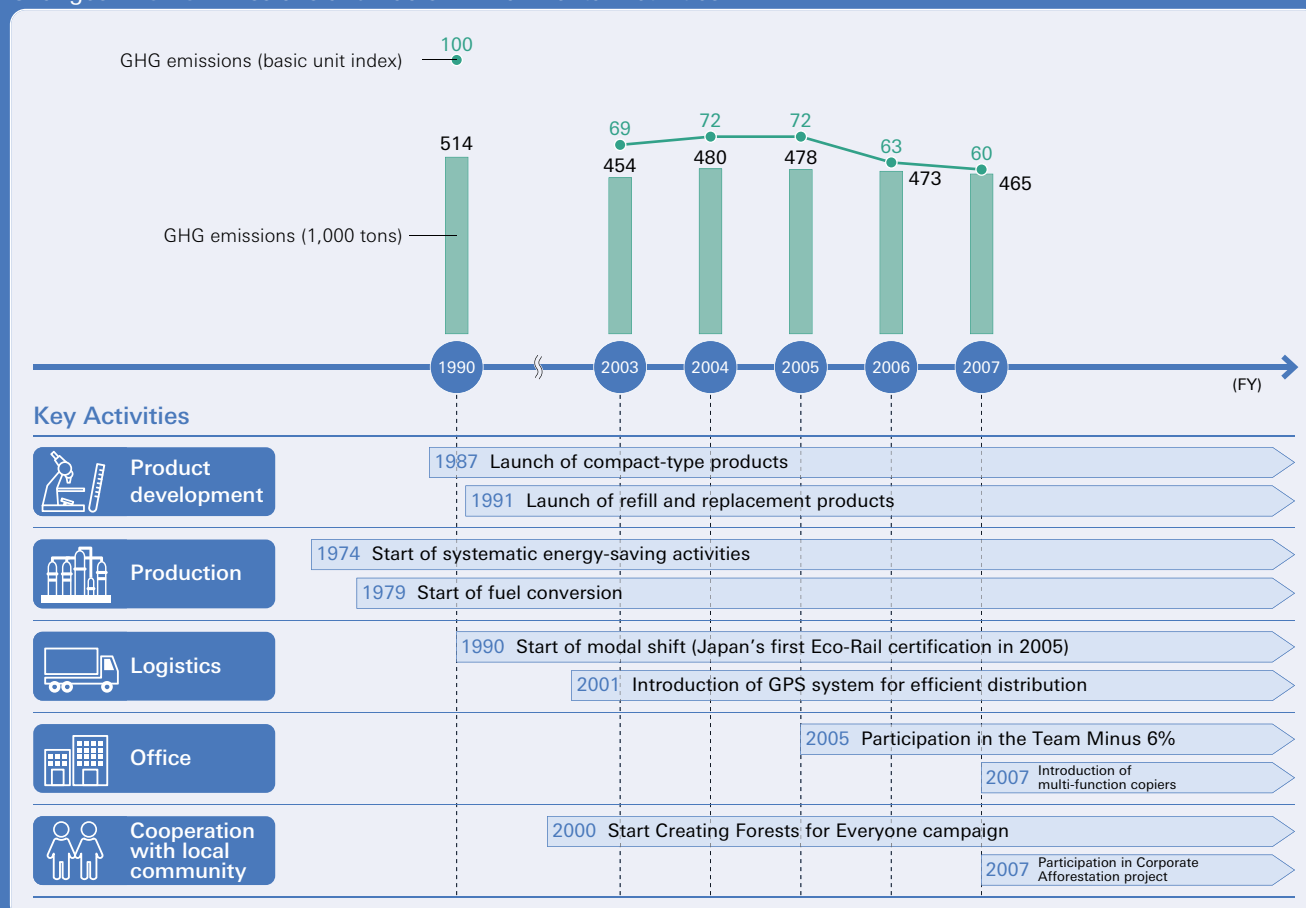
Steady and Continuous Efforts

Kao promotes activities aimed at reducing environmental impacts in the priority areas of greenhouse gas (GHG) emissions, chemical substances management, waste and containers & packaging materials.

Kao's activities aimed at reducing GHG emissions, in particular, cover all aspects of our corporate activities, ranging from product development and production to logistics.

We also promote environmental measures at our offices and implement joint activities aimed at reducing GHG emissions with local communities and NPOs on a continuous basis.

Changes in GHG Emissions and Kao's Environmental Activities





Product development

Pursuing better products that meet both functional and environmental requirements at the same time

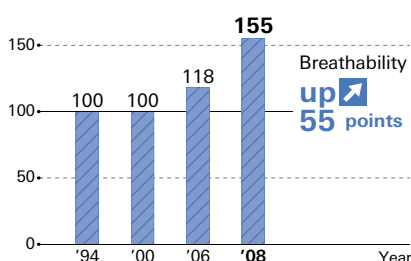
Kao aims to improve customer satisfaction and fulfill its social responsibilities through development/manufacturing that places an emphasis on improving performance and functionality of its products, while minimizing the environmental burden.

For example, *Merries Pants* disposable baby diapers have been developed in pursuit of high levels of breathability since the product was launched in 1994 as a diaper gentle on baby skin. As part of these efforts, we successfully developed a technology that allowed us to reduce the amount of adhesives that hinder breathability, by applying them in a thin layer, thus improving breathability without compromising adhesiveness. At the same time, we also reduced the amount of materials used and thus reduced the environmental burden as well. Moreover, the size of the absorbent core has also been reduced by improving the performance of super absorbent polymer, one of the component materials. By developing lighter and thinner products, we contribute to the reduction of energy consumption during distribution as well as the reduction of domestic waste after use.

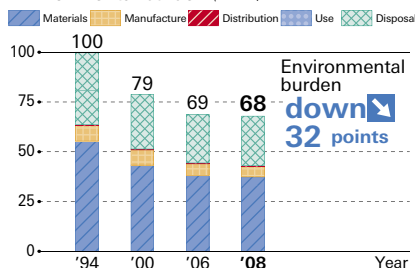
Through a series of technical innovations, Kao successfully achieved its dual objectives of enhancing product functionality and reducing environmental impact.

Changes in Breathability and Environmental Burden of *Merries Pants* (LCA*)

Breathability (Index, when breathability in 1994 is 100)



Environmental burden (Index, when LCA in 1994 is 100)



* LCA: CO₂ emissions by life cycle assessment

User- and environmental-friendliness increased, while basic functions enhanced

Jun Sasaki

Sanitary Product Research Laboratories

We have always considered the environmental impact throughout every stage of development of *Merries Pants*. For example, as a general rule, if we cut materials, product performance will decrease. We changed our conventional approach and started searching for new technologies that would improve performance by reducing materials. This year's improvements are the embodiment of such technologies which make the product even more baby- and environment-friendly.



Merries Pants



Product development

Contributing to global warming prevention by enhancing environmental performance

Kao's Chemical Business Unit supplies chemical products (intermediates) to a wide variety of industries throughout the world. These industrial chemicals are used in manufacturing by our clients in broad-based applications. Thus, the Kao Group engages in the prevention of global warming through the enhancement of the environmental performance of its products.

For example, toner used for copiers and printers is produced by combining colorant (pigment) with a toner binder, which bonds the colorant to the paper. The Kao Group supplies approximately 30% of the world's toner binder and has the largest share of the world toner binder market. Its proprietary polyester resin products are superior to conventional products in binding capability. In addition, the toner binder enables binding at a lower temperature. Recently, Kao developed a polyester toner capable of binding at about 30°C lower than conventional toners, which means the fixing roller temperature can be set low. This is expected to realize a saving in electricity consumption of around 40%*.

* In comparison with Kao's conventional products during the fixing process when paper is going through.



Toners for printers and copiers



Product development

Reducing plastic consumption for containers

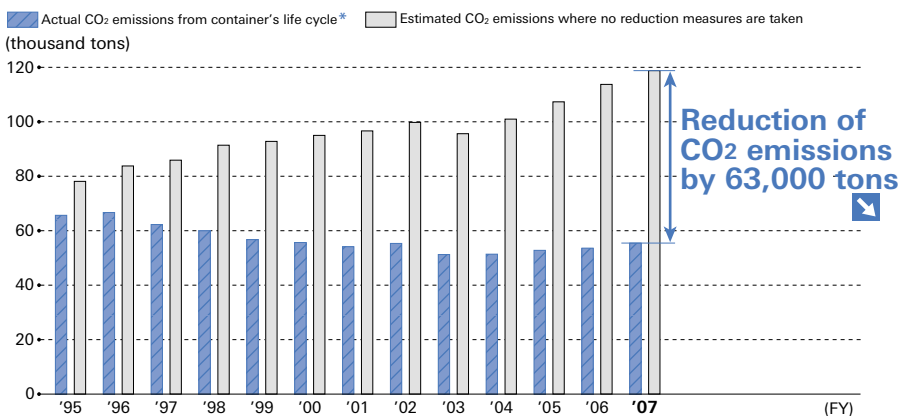
Kao sells more than 2 billion units of consumer products, such as laundry detergents, shampoos and prestige cosmetics, annually. We recognized that reducing the containers and packaging for these products would result in a significant contribution to resource saving and waste reduction after the products' use. On this basis, Kao started reducing the consumption of the plastics that are the raw materials of containers quite some time ago. Since then, we have strived to reduce CO₂ emissions in the manufacturing process of containers.

While ensuring the primary functions of containers—protecting the contents and maintaining their quality—is not compromised, we take a three-pronged approach to reducing plastic consumption: making containers smaller by concentrating the contents, reducing the thickness of containers and introducing refill and replacement products.

These efforts have brought about a reduction in the consumption of plastic by 37,000 tons in fiscal 2007, as compared to consumption without these measures. In terms of CO₂ emissions, this has the effect of reducing 63,000 tons of CO₂ emissions annually.



Refill and replacement products

Reducing CO₂ Emissions by Introducing Refill, Replacement and Compact Products

* Total of CO₂ emissions from the consumption of electricity etc., during each process from mining of resources to manufacture and processing of containers

* The scope of aggregation covers Kao Corporation.

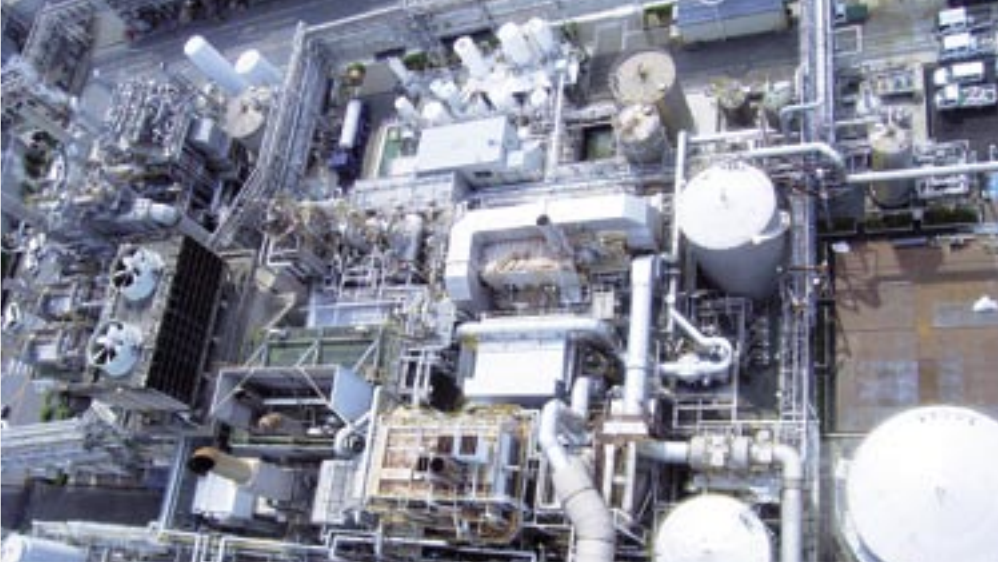
Working to further reduce packaging material consumption

Michiaki Fujita

Package Development Research Laboratories

At the Package Development Research Laboratories, we have actively promoted 3R activities. We made efforts to reduce the consumption of plastics used for containers, promote the introduction of refill products and use recycled materials, based on a policy of eliminating, reducing and replacing materials. As a result, current packaging specifications contain almost no excess. Based on our accumulated technologies and in line with our commitment to providing appropriate, attractive, easy-to-use and environmentally friendly packaging, we continue to strive to develop new technologies by changing our mind-set and breaking through conventional ideas.





Production

Kao began fuel conversion aimed at reducing CO₂ emissions in 1979

The Kao Group has undertaken a variety of initiatives to save energy during the production processes. For example, we have introduced energy-saving equipment, streamlined manufacturing processes and developed energy-efficient processes.

We converted our fuel source from oil to natural gas before many of our competitors in the industry. Since introducing natural gas in 1979 at our Kawasaki Plant, we have completed the conversion to natural gas at all domestic and overseas plants located in the area where the necessary infrastructure is in place.

In fiscal 2007, we installed a regenerative thermal oxidizer at our Wakayama Plant and reexamined and optimized its boiler combustion process. This should reduce annual city gas consumption by approximately 1.46 million Nm³ (approx. 1,700 kl/year in crude oil equivalent; 3,300 tons/year in CO₂).



Regenerative thermal oxidizer



Production

Applying environmental technologies accumulated in Japan to overseas group companies

P.T. Kao Indonesia Chemicals, one of our chemical products manufacturers, began a feasibility study into the conversion from oil to natural gas in 2004, embarking on the project in 2005. In the course of switching fuels, the company took advantage of the expertise and experience with natural gas facilities gained by the plants in Japan. Despite the delay in laying the gas pipes, the company completed the fuel conversion project on schedule in September 2007. It is expected that this conversion will reduce CO₂ emissions by around a minimum of 20%, compared to what they were previously. Another of our plants, P.T. Kao Indonesia, which produces consumer products, also converted to natural gas in February 2008.

Our energy-saving and environmental technologies will also be applied in the future to other affiliates in and outside Japan, contributing to the reduction of CO₂ emissions from the Kao Group as a whole.

Using natural resources locally available to lessen environment impacts

Tatang Sutarman
P.T. Kao Indonesia Chemicals

Kao's switch to natural gas, which is a cleaner source of energy than oil and is available in our country, is consistent with the energy policy of the Indonesian government. To ensure the safety of gas facilities during the conversion, Kao Indonesia Chemicals carried out preparatory works in cooperation with the technology center in Wakayama. Thanks to their assistance, we were able to begin operation of the gas facilities without any problems. We do love our Country Indonesia and will do our best to save our country. In the future we will always consider our activities and aim to reduce global warming. Let's save our earth.





Logistics

Promoting shift to a mode of transport with less environmental impact

The Kao Group companies in Japan have long been working for the establishment and operation of an efficient distribution system and have promoted a modal shift from trucks to more environmentally friendly rail or shipping transport to reduce our CO₂ emissions from logistics operations.

Our efforts in this regard were recognized when Kao was selected to be among the first Eco Rail Mark authorized companies in 2005. This mark authorizes products and companies that are proactively addressing global environmental problems by utilizing railway transportation.

Where we do use trucks, we are working to reduce CO₂ emissions by introducing larger shipment containers and improving loading ratios. We are also managing our loading system in conjunction with a product demand forecast system. We raised our truck loading ratio—generally 62%—to approximately 99% in fiscal 2007.



Eco Rail Mark

Railway transportation is said to produce only one-eighth of the CO₂ emissions produced by truck transportation. To raise public recognition of this fact, the Ministry of Land, Infrastructure, Transport and Tourism approves the use of the mark for the products that meet certain criteria. As of March 2008, a total of 20 products and 40 companies were authorized under the Eco Rail Mark program.



Office

Promoting environmental awareness and security through the introduction of multi-function printers

As the number of OA machines at our Kayabacho Office increased in recent years, we identified unnecessary printing taking place. Therefore, in fiscal 2007, we changed our operating procedures for printers and other OA machines, cutting electricity consumption, reducing paper use and disposal and further ensuring protection of personal information.

The initiative started as a trial in the Administrative Service Group, Human Capital Development. Printer, copier and fax machine functions were consolidated using the latest multi-function printers mounted with IC card readers for authorization. The amount of paper used by each staff member is recorded and reported to the respective staff member as well as the group. This has enhanced employee awareness of environmental and security issues.

In October 2007, a multi-function machine was introduced to the unit on an experimental basis and positive results were confirmed. Therefore, in March 2008, we introduced similar models to all floors in the building, reducing the number of printers and copiers from 127 to 48 units in total. We are working to achieve a reduction of CO₂ emissions equal to 11.7 tons CO₂/year by reducing our paper consumption.

Similar initiatives are planned for other major offices to spread these benefits.

Making our environmental activities visible by integrating printing machines

Kuninori Sato

Administrative Service Group, Human Capital Development

We have been steadily promoting environmental activities at our office, including zero emission programs and “cool-biz” and “warm-biz” campaigns for some time. However, the sense of participation felt by individual employees was not sufficiently strong. The introduction of multi-function printers helped to heighten our sense of participation because the amount of paper consumption, disposal and CO₂ emissions of each member of staff was calculated and shown. We learned



that making our progress in environmental and other activities visible achieves substantial results, and we therefore intend to continue applying these methods.



Cooperation with local community

Continuing the “Creating Forests for Everyone” program and participating in “Kigyō-no-mori” (Corporate Afforestation) project

To help preserve Japan’s beautiful countryside and lush natural environments so that they can be handed down to future generations, Kao is promoting a program called Creating Forests for Everyone.

Started in 2000, this activity is a greening program undertaken jointly by the Urban Green Space Development Foundation and Kao. Part of sales of refill products, such as shampoos and detergent, (up to 30 million yen per year) is used to provide grants to NPOs and citizens’ organizations engaged in activities to protect and increase local green areas.

As of fiscal 2007, Kao has supported the activities of 280 organizations, involving a total of approximately 112,000 citizens. As part of forest conservation and management, these organizations have thinned trees and planted roughly 82,000 seedlings. As a result, an area of about 1,850 hectares of forest has been maintained. These forests have absorbed the equivalent of 2,500 tons of CO₂ emissions in total.

In 2007, Kao started taking part in the “Kigyō-no-mori” (Corporate Afforestation) project organized by Wakayama Prefecture. Under this project, the prefecture, in cooperation with local forestry cooperatives, lends sections of forests to companies and other organizations at no cost. Kao concluded agreements with the governments of Wakayama Prefecture and Kimino-cho to conduct forest conservation activities, and borrowed 0.7 hectares of forest in Kimino-cho, Kaise-gun in Wakayama Prefecture, establishing the “Kao Forest.” Since the tree-planting ceremony in April 2007, Kao employees have regularly participated in weed cutting and other forest conservation activities.

By joining hands, we can protect and reestablish green areas

Rumi Sato

Kogera-no-Mori Zukuri no Kai (Society for the woodland habitat of Japanese pygmy woodpeckers)

In an effort to transform one of the remaining precious wooded areas in Kodaira City into a community forest, we are carrying out conservation activities in cooperation with landowners and local residents. A once-devastated wooded area has been restored to a beautiful forest that is treasured by our community. As well as providing us with encouragement and support, I believe that Kao’s Creating Forests for Everyone program will have ongoing benefits for future generations. As environmental problems become more pressing, many citizens throughout Japan take part in activities to create community forests. As a good example of an environmentally friendly company, we look forward to Kao’s continued support of community activities to create forests.



Evaluation of the Kao Forest project and expectations of Kao

Yasuhiro Ohira

Senior Assistant Manager, Forestry Management Division, Wakayama Prefectural Government



The Wakayama prefectural government has been implementing the “Kigyō-no-mori” (Corporate Afforestation) project to improve devastated forest environments and revitalize local communities in partnership with corporations based in urban areas through their corporate citizenship activities. To date, 38 companies and organizations have participated in our project. Out of those, Kao stands out for its dedication to forest conservation activities. Kao’s employees visit “Kao Forest” every month to check on the status of the forest and remove weeds. We don’t doubt that the company will continue to expand its community-based activities.



Weed cutting at “Kao Forest” in Kimino

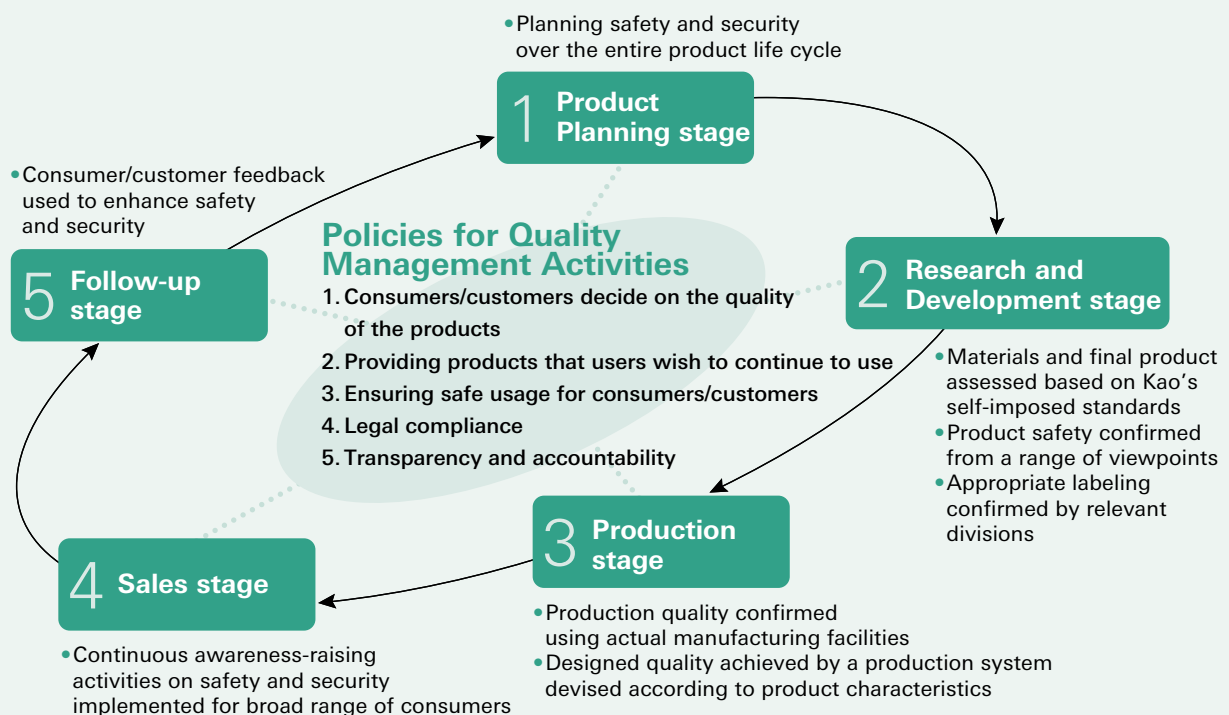


“Quality of Safety” and “Quality of Security”

Striving for the wholehearted satisfaction and enrichment of the lives of people through *Yoki-Monozukuri* from the consumer/customer point of view.

Based on our corporate philosophy, The Kao Way, Kao scientifically confirms the safety of its development/manufacturing processes. We also provide as much product information as possible so consumers/customers can use our products with peace of mind. Through these efforts we are addressing issues of safety and security throughout the entire life cycle of our products.

Safety and Security Measures during Each Development/Manufacturing Process



1 Product Planning stage

Pursuing safety and security over the entire product life cycle

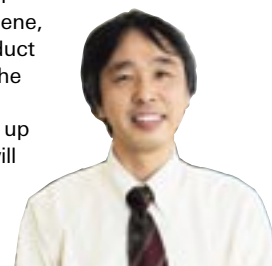
Kao safety and security measures begin in the product planning and examination phases. For example, during the phase where a product is first conceived, possible risks to human health and the global environment are identified for each stage, from purchase at the store to storage, use and disposal at the home. These risks are listed on a check sheet that is used by all the different sections throughout the company that are involved in the development of the product. We have established a wide range of mechanisms to ensure these processes take place.

Aiming for high functionality,
along with safety and security

Kazuo Shimizu

Home Care Business Unit, Fabric and Home Care

I manage product planning projects for products used for bathrooms and toilets. My responsibilities include identifying consumer needs through home visits and surveys, developing prototypes in cooperation with R&D divisions and implementing consumer product evaluations. While part of my work is naturally devoted to pursuing the development of highly functional products to maintain cleanliness and hygiene, I also approach product development from the point of view of the consumers to come up with products that will impress and satisfy consumers, and can be used safely with peace of mind.



2 Research and Development stage

Evaluating materials and the final products in accordance with our strict self-imposed safety standards

— Safety assessment

During the Research and Development stage, we evaluate the safety of our products for humans and the environment using our strict self-imposed safety standards in addition to regulatory safety standards. The assessments are conducted by the Safety Science Research Laboratories. The risk of each product is estimated by taking account of the product type, the use of product and Kao's experience. The products are classified by their possible risks. Then we conduct scientific risk assessment in an appropriate manner for each product.

Case Study Ensuring the safety of consumer products

Kao is committed to ensuring the safety of the products it sells at every stage, from the selection of raw materials to use by consumers.

Material evaluation



Kao evaluates more than 10 toxicological endpoints such as skin irritation, skin allergy and mutagenicity and uses only materials that are ensured to be safe.

Product testing



The safety of products to be applied directly to the skin is confirmed by clinical studies such as use tests and patch tests under the supervision of a dermatologist.

Counseling at the counter



For some beauty care products, in-store beauty advisors check the skin condition of individual consumers and recommend products best suited for them.

2 Research and Development stage

Product safety confirmed from a range of viewpoints — Product Safety Study Meeting

Kao has established a system to ensure that only products whose safety is assured are put on the market. We call this system our “Product Safety Study Meeting.”

All our products are evaluated and their safety is comprehensively ensured from a social-scientific perspective as well as a purely scientific perspective. Potential issues relating to innovative products are thoroughly discussed and addressed from a number of angles at the Product Safety Study Meeting attended by personnel from our consumer consultation, quality management and other divisions. When issues that need attention are identified, changes are made. Such revisions relate not only to composition or the product’s container, but also advertising messages, instructions and cautions.

2 Research and Development stage

Appropriate labeling confirmed by relevant divisions — Approval Circulation System for Product Labeling

When a product is developed, Kao checks all statements and wording incorporated into the packaging, including instructions for use, in regard to safety considerations, legal compliance and ease of understanding. To ensure the reliability of these checks, we have introduced an “Approval Circulation System” where related divisions such as consumer consultation, trademark and pharmaceutical affairs each check the product labeling in turn.

Ensure safety of the products by getting involved in the product development from the beginning

Yukiko Yoshida

Safety Science Research Laboratories

We evaluate the safety of our products and ingredients scientifically by taking account of various factors such as who will use the product and how and then take the appropriate measures to ensure the safety of our products. We are involved in the product development from the beginning through close communication with product development personnel to offer the safe products to consumers.



Case Study Securing the Safety of *Kyoryoku Kabi Haitei* Mold Remover

Kao is committed to manufacturing safe products. However, some house cleaning products designed to maintain cleanliness and hygiene contain potent ingredients that could cause injury if used inappropriately. One such product is *Kyoryoku Kabi Haitei* Mold Remover, a cleaner for removing persistent bathroom mold.

Since the launch of the product in 1998, we have consistently improved the product’s effectiveness as a mold remover. At the same time, we have also upgraded the container design and provided clear instructions on labels, in in-store leaflets and commercial messages to ensure the product is used safely.

Container safety design 1

A lock to prevent unintentional spraying

As well as employing a nozzle that sprays no airborne droplets, the product is equipped with a lock to prevent the lever from being squeezed unintentionally.

Container safety design 2

Eye-catching stickers

Products are displayed with stickers carrying product feature descriptions and instructions. Replacement products carry “Unopened” stickers.



Caution mark 1

Large-sized letters

In accordance with the Household Goods Quality Labeling Act, we indicate special cautions, such as “Dangerous—Do Not Mix,” in larger fonts. To ensure users read the instructions and warnings before they actually use a product, we have made labeling easier to see.

Container safety design 3

Special screw design

To prevent the nozzle from being used with other detergent spray products, a specially designed screw is employed.

Caution mark 2

Use of different colors

First aid measures to be taken in case the product comes into contact with the eyes or skin or is accidentally ingested are indicated in a different color to make them stand out.



In-store safety

We ask retailers to display the product below eye level to prevent accidental spattering that could cause injury in case the product is dropped or knocked from the shelf.





3 Production stage

Production quality is confirmed using actual manufacturing facilities — “Zero Batch” Evaluation Meeting

Prior to the start of production of a product, Kao conducts “zero batch” testing where a product is mass produced on a trial basis, using actual manufacturing facilities and containers in actual manufacturing conditions. Trial products are checked for performance and quality during use, transport and storage by relevant divisions, taking the entire life cycle of the product into account. Subsequently, “zero batch” evaluation meeting consisting of personnel from related divisions is held to confirm that the prototype meets all quality standards. Then commercial production will commence.

3 Production stage

Designed quality achieved by a production system devised according to product characteristics

At the production phase, processes from the reception of raw materials to production and transportation are strictly controlled to ensure designed product quality is realized. In particular, we take all necessary measures to prevent microbial and impurity contamination that would result in significant quality degradation.

On a line producing diversified products, a bar code based management system has been established to prevent accidental wrong combination of raw materials. This system prevents production lines from functioning unless the correct materials and containers are used. We introduce optimal production management methods based on the characteristics of the products and production lines.



High-quality, high-speed production realized through the use of sensors and image analysis equipment

Sensors and image analysis equipment have been introduced for mass and high-speed production to improve quality and productivity by means of image processing. Image analysis equipment is fully utilized in the production of paper diapers, a process which involves components being assembled rapidly.



Conducting organoleptic assessments to verify aroma, taste and color

In addition to tests by mechanical analyzers, cosmetics and food products are tested by experienced experts for flavor and taste. Using this system we are able to identify slight differences that cannot be detected mechanically and thus ensure quality is maintained.

Process management and quality testing even for small cosmetic samples

Katsui Kobayashi
Production Division, Tokyo Plant

Personnel involved in the production of cosmetics are implicitly entrusted by consumers to provide them with products that will make them look and feel their best. Safety and quality assurance are prerequisites. Even small samples are subject to process control and quality testing. Foundations and lipsticks in particular require a delicate touch, which is provided by our in-house certified high-level technicians. We continue to aim for *Yoki-Monozukuri* that surpasses the expectation of our consumers.



4

Sales stage

Implementing ongoing awareness-raising activities relating to safety and security for a broad range of consumers/customers

In order to provide consumers/customers with a sense of security we systematically provide information through awareness-raising activities to ensure that the targeted people get the correct information, so they can use our products the “right” way.

Our awareness-raising activities come in three forms: advertising, in-store activities and academic activities. This ensures we reach a good cross-section of the targeted people, which includes our consumers and retailers’ sales staff as well as experts who have direct contact with consumers, such as doctors, pharmacists and nutritionists.



Awareness-raising activities

We inform our consumers about how to select and use our products and provide a variety of information about how to use the products safely.

Winning the trust of our diverse range of consumers/customers by continuously providing the most up-to-date information about our product

Kahoko Kanatani

Kao Consumer Communication Center

It is my job to provide the most accurate, up-to-date information about the functions and safety of Kao’s products to consumers/customers as many people as possible. Regarding our Food for Specified Use, we devote a lot of energy to providing information to nutritionists,

who are the people who give dietary advice to the general public. We also provide support for health classes for citizens and dietary counseling programs offered by employers and hospitals.



In-store activities

We run seminars and training sessions for retailers’ sales staff to provide them with product knowledge and information about market trends.



Academic activities

We make available research papers and reports that deal with the latest research results from Kao’s research division and host lecture meetings for doctors and other professionals.

5

Follow-up stage

Consumer feedback used to enhance safety and security

One of the biggest driving forces for the realization of safe and secure product development is our consumer feedback, which we receive in the form of more than 100,000 contributions after the release of a new product annually, through consumer consultation services. A lot of this feedback includes valuable proposals that we utilize for new product development and product improvement, as well as for information provision following purchase. Through our consumer feedback database, the Kao ECHO System, these valuable opinions are shared among relevant divisions and drawn upon for consistent improvements in products, containers, labeling and advertising.



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Kao has been endeavoring to enhance corporate governance and develop an internal control system that will allow us to achieve highly efficient, sound and transparent management.

Kao's basic position on corporate governance is to develop a managerial framework and internal control system that can realize highly efficient, sound, and transparent management with the aim of continuously increasing corporate value. In preparation for the Internal Control Report System under the so-called J-SOX Law that was launched in April 2008, Kao has been implementing a Project to Promote the Documentation of Internal Control since fiscal 2006. In fiscal 2008, we will create new mechanisms to develop, operate and improve the internal control system for financial reporting.

necessary measures in a timely fashion.

In accordance with this concept, we introduced an executive officer system to help distinguish between supervision and execution in the context of the audit system in fiscal 2002. We also enhanced the supervisory functions of our External Directors in relation to Kao's management.

As of June 27, 2008, Kao's management structure consisted of 15 members of the Board of Directors, including two External Directors, and 25 Executive Officers, including 13 who serve concurrently on the Board of Directors.

Corporate Governance System

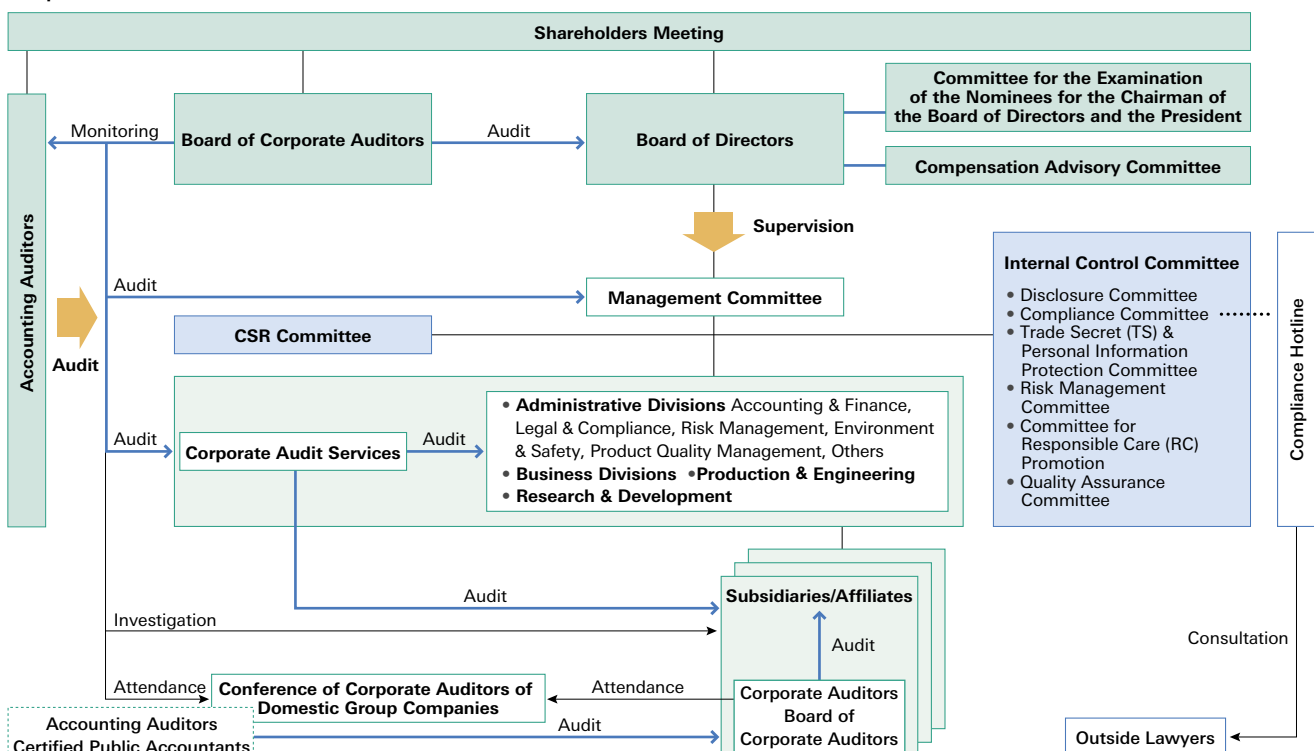
Basic concept and management structure

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

Appointment, compensation and evaluation of Directors

Kao is committed to securing transparency in the appointment and compensation of Directors. Specifically, we have established the Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President, which consists of all External Directors and External Corporate Auditors, and provides a forum for them to express their opinions regarding the qualifications of nominees for the positions of Chairman and President. In selecting External Directors, we appoint those who have plenty

Corporate Governance Structure



* Kao actively seeks the advice of a range of experts, including legal practitioners, concerning corporate management and daily business activities and takes such advice into consideration when making management decisions.

of experience as business executives and can deliver objective and independent opinions. The attendance rate of our two External Directors at Board of Directors meetings was more than 90% respectively in fiscal 2007.

We have also established the Compensation Advisory Committee, which is composed of all Representative Directors, the Chairman of the Board of Directors and all External Directors, to annually examine the compensation system and pay level for members of the Board of Directors and Executive Officers at the pertinent time. Regarding compensation for members of the Board of Directors and Executive Officers, Kao has implemented a stock option plan for the purpose of aligning their interests with those of the shareholders of the company. Compensation is linked to performance based on EVA (Economic Value Added), etc.

Kao's executive officers undergo multidimensional evaluations every other year to confirm their competence for leadership based on the opinions of those who work above, beside and below them. Evaluation results are provided to the respective executive members as feedback to assist them in improving their own performance.

Supervisory and checking functions for management and business activities

Four Corporate Auditors, including two External Corporate Auditors, exchange opinions regularly with Representative Directors, attend meetings of the Management Committee and other important meetings, participate in regular Conferences of Corporate Auditors of Domestic Group Companies, and share auditing information with the internal auditing division and Accounting Auditors as necessary. Through these arrangements Kao is continually improving the effectiveness and efficiency of its auditing practices.

In addition, Kao Internal Audit audits the appropriateness of operational processes and the adequacy and efficiency of the management of Kao Corporation and its domestic and overseas affiliates.

In fiscal 2007, Kao conducted audits to determine compliance with internal rules and audited exports as required by the Foreign Exchange and Foreign Trade Law. In fiscal 2008, in addition to these audits, Kao will implement operational audits focusing on the establishment and operation of internal controls.

Internal Control System

Creating an internal control structure

Kao established the Internal Control Committee, chaired by the President & CEO, to discuss and determine basic policies and their development and operating plans

related to internal controls.

The Internal Control Committee has six associated committees and promotes internal control initiatives by employing the PDCA (Plan, Do, Check and Act) cycle from the perspectives of information disclosure, compliance, protection of trade secrets (TS) and personal information, risk management, Responsible Care (RC) promotion, and quality assurance. Board members who comprise the six associated committees as key members also serve in the Secretariat of the Internal Control Committee, which provides overall internal control oversight. The Secretariat also includes the heads of the of Legal & Compliance, Environmental & Safety, Quality Management, Risk Management, Human Capital Development, Accounting & Finance, Information Systems and Internal Auditors divisions.

Kao annually reviews the Basic Policies on the Development of Internal Control that were formulated in May 2006 and is endeavoring to ensure the establishment of an internal control structure in accordance with them.

Making preparations for the implementation of the Internal Control Report System

Kao has been implementing the Project to Promote the Documentation of Internal Control since fiscal 2006 with the aim of enhancing the reliability of financial statements and improving the transparency of management in preparation for the Internal Control Report System under the so-called J-SOX Law that was made effective in April 2008.

In fiscal 2006, Kao identified the risks of and controls for business procedures related to financial reporting and sequentially documented the major business processes of Kao and its major group companies.

In fiscal 2007, Kao continued to promote the documentation of the business activities of Kao and its major group companies, evaluated the design and operation of internal controls, and rectified inadequacies. In addition, regarding the company-level internal controls and standards that have an extensive effect on the entire company and apply to the group as a whole—including The Kao Way and Kao's Business Conduct Guidelines—Kao surveyed the design and operation of such controls at its group companies and rectified inadequacies.

In fiscal 2008, Kao has established a new structure to replace the Project to Promote the Documentation of Internal Control as of April 1, 2008 and will continue to promote and improve the design and operation of the internal control system related to financial reporting.

Kao has established various compliance guidelines based on The Kao Way and endeavors to promote their wider implementation and establishment in Kao's domestic and overseas group companies.

Kao holds up integrity as one of its basic values in The Kao Way, and has clearly documented its commitment to act in accordance not only with laws but also social and business ethics. In addition, we established Kao's Business Conduct Guidelines (Kao BCG) for employees. To promote the wider implementation and establishment of its corporate ethics throughout the company, we established the Compliance Committee and provide compliance training via e-learning etc. Kao has also established the "legal expert system," in which employees who have a firm grasp of domestic laws related to specific businesses are designated as "legal experts" and can be consulted by other employees. In addition, we have established our own internal compliance hotlines for the reporting of concerns related to compliance violations by Kao Group companies, including at overseas affiliates. At some of our overseas subsidiaries, additional hotlines are contracted out to external providers. Kao has established various guidelines, including the Information Security Policy to deal with the Act concerning Protection of Personal Information. We have also established the Trade Secret (TS) & Personal Information Protection Committee as part of our efforts to strengthen internal controls.

Compliance Promotion System

Basic concept —Kao's Business Conduct Guidelines

In the wake of numerous corporate scandals in recent years, consumers come to examine companies with

Kao's Business Conduct Guidelines (fundamentals of business conduct)

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

Web Full text of Kao's Business Conduct Guidelines
<http://www.kao.co.jp/en/company/guidelines/index.html>

increasing scrutiny. Kao holds up integrity as one of its basic values in The Kao Way, stating that it behaves lawfully and ethically, and earns the respect and trust of all stakeholders through sound and honest business activities. We also adopted in April 2003 Kao's Business Conduct Guidelines (Kao BCG), which sets clear standards of behavior that employees are expected to abide by in their day-to-day work by reference to documents like Nippon Keidanren's Charter of Corporate Behavior and the Global Compact. We regularly review the contents of the Kao BCG to reflect changes in social and business circumstances, and will revise parts of them in 2008.

By the fall of 2007, we had introduced the Kao BCG into those affiliates which had then not adopted Kao BCG and held explanatory sessions for employees. Kao will continue to promote the wider implementation of the Kao BCG as the Group's standards of behavior.

Continuously implementing compliance promotion activities

Kao has established a Compliance Committee, chaired by the Executive Vice President and comprised of representatives of relevant divisions and affiliates. The Compliance Committee establishes and revises the Kao BCG, organizes programs to promote the wider implementation and establishment of corporate ethics, operates the compliance hotlines, including the review and monitoring of hotline responses, and reports important matters and its decisions to the Board of Directors.

There were no significant violations of laws by any Kao Group companies in fiscal 2007.

Enhancement of Compliance

Establishing compliance hotlines in overseas affiliates

Kao has established both internal hotlines operated by the Compliance Committee secretariat and external hotlines operated by outside specialists, including legal practitioners to provide a means for the reporting of possible legal or ethical violations related to business activities. All Kao Group employees in Japan, as well as related parties, including our business partners, can access these services. In addition, as a part of our efforts to establish our internal control system, we also began launching internal hotlines at our overseas affiliates. By the end of 2007, hotlines had been established in most of our overseas affiliates. The validity of complaints received via these hotlines is confirmed with the relevant divisions and any violations are corrected. During this process the identity of the person making the report is strictly protected. In fiscal

2007, an average of 19 reports were received each month in Japan but none of these reports related to serious legal violations.

Holding antitrust law seminars at domestic and overseas Kao Group companies

Around the world in recent years, the number of legal cases related to competition, restriction of cartels and consumer protection has been increasing, with those found to have been in violation of laws subject to stiff sanctions including high financial penalties. Therefore, it is necessary for companies to fully understand the relevant rules and laws of individual countries and regions, to act with extreme caution to avoid violations related to cartel and resale price maintenance and to conduct business activities in a sound and ethical manner.

In 2007, the Kao Group held antitrust law seminars targeting board members and employees of Kao Group companies in Spain and Germany (June and July), Japan (September) and the United States (November).



Antitrust law seminar (Spain)

Information Security and Protection of Personal Information

Proper management of trade secrets and personal information

Kao has established Guidelines on Handling Trade Secrets Information, Kao Guidelines for Handling Personal Information, and IT Security Guidelines, based on its Information Security Policy, to ensure business activities are carried out in accordance with the Act concerning Protection of Personal Information in Japan and other laws. As a part of our efforts to enhance our internal controls, members of the Trade Secret (TS) & Personal Information Protection Committee, divisional members for protection of trade secrets, and supervisors who handle personal information are required to ensure comprehensive information security management when performing their respective roles. Kao provides these personnel with necessary training and education on an ongoing basis.

Despite our strict control, in an incident that occurred in February 2008, confidential information was leaked when one of our employees stored business-related information on his own infected personal computer in violation of company regulations. In response to this incident, we acted swiftly to enhance the awareness of all employees regarding information security management.

Kao retains a large amount of personal information of participants in promotional campaigns, consumer monitors and callers to the Consumer Communication Center. In accordance with the Ministry of Economy, Trade and Industry's guidelines this personal information is strictly protected. When consigning transactions involving personal information to other companies, Kao exercises thorough oversight of such companies by means of detailed contracts and auditing procedures. Pursuant to the Ministry of Health, Labour and Welfare's guidelines, the personal information of Kao employees is also kept secure.

In addition, we have been working toward the establishment of a system for the protection of trade secrets and personal information at some of our overseas affiliates, mainly those in Asia. In the future, we intend to expand this system to other Kao Group companies.

List of articles concerning "Compliance"

Items followed by the [Web](#) mark can be found on the Web site below.

<http://www.kao.co.jp/en/csr/report/08/compliance/>

Compliance Promotion System

- Basic concept—Kao's Business Conduct Guidelines
- Continuous implementation of compliance promotion activities

Enhancement of Compliance

- Establishing compliance reporting hotlines at overseas affiliates
- Establishing the "legal expert system" [Web](#)
- Checking compliance with regard to fair trade [Web](#)
- Utilizing external helpline services [Web](#)
- Compliance auditing and monitoring [Web](#)
- Implementing e-learning [Web](#)
- Holding antitrust law seminars at domestic and overseas Kao Group companies

Protection of Intellectual Property Rights

- Establishing a system to avoid infringement of the intellectual property rights of others [Web](#)

Information Security and Protection of Personal Information

- Managing trade secrets and personal information appropriately
- Implementing divisional self-patrols [Web](#)
- Holding the 14th Trade Secret & Personal Information Meeting [Web](#)

As it goes global, the Kao Group is establishing a global structure to promote CSR.

Kao announced its participation in the UN Global Compact to promote CSR activities as a group and has established mechanisms for companywide control of such activities. In pursuit of CSR, however, each group company has the freedom to make full use of its particular strengths and characteristics. For example, in fiscal 2007, Kao Customer Marketing Co., Ltd. commenced CSR training and Kanebo Cosmetics Inc. formed groups to discuss different challenges and targets for CSR activities.

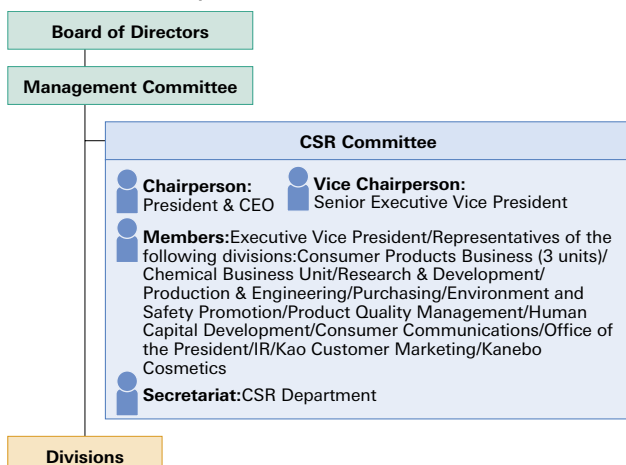
CSR Promotion System

Continuously promoting CSR

Kao established the CSR Department and CSR Committee to promote and oversee CSR activities at the group level. The CSR Department is responsible for planning the direction of the Kao Group's CSR activities, conducting communication activities and disclosing CSR-related information to Kao employees and the general public. The CSR Department also runs the CSR Committee, which is comprised of divisional representatives. At bimonthly committee meetings, individual divisional challenges are discussed and debated to arrive at solutions that can be applied companywide. Meanwhile, each division continuously strengthens and enhances a variety of efforts, such as creating mechanisms to allow employees to make the most of their various capabilities, encouraging suppliers to carry out CSR activities and launching initiatives aimed at preserving the global environment.

As part of fulfilling its social responsibilities within

CSR Promotion System (As of March 31, 2008)



the international community, Kao has participated in the Global Compact (GC), a voluntary corporate initiative established by the United Nations, and continues to maintain its commitment. Each year a GC-based survey of Kao Group companies is conducted. The fiscal 2007 survey uncovered no violations of the compact, such as the use of child labor.



Global Compact logo

Participation-Based CSR Activities

Promoting CSR awareness within the company

For CSR to be fulfilled on a groupwide basis, it is advantageous if all employees are aware of the meaning of CSR and undertake CSR activities. Based on this concept, Kao holds meetings to explain CSR to employees with the aim of promoting understanding of CSR and implementation of CSR activities. Since fiscal 2007, we have introduced a CSR component in training programs that all newly employed and promoted employees are required to undertake. We also explain our CSR policy at regular meetings of individual divisions and affiliates.

Kao Customer Marketing Co., Ltd. implemented CSR training in February 2008 to encourage each employee to develop a "social sustainability mind-set." As part of the training, participants discussed the characteristics of the company's CSR activities and ideal methods of communication with its stakeholders. Kanebo Cosmetics Inc. in July 2007 launched a project to consider CSR activities. Based on the discussions held during the project, Kanebo Cosmetics readjusted its targets and considered how to uniquely direct its CSR activities.

List of articles concerning "CSR Promotion"

Items followed by the [Web](#) mark can be found on the Web site below.
<http://www.kao.co.jp/en/csr/report/08/csrpromotion/>

CSR Promotion System

- Continuously promoting CSR

Participation-Based CSR Activities

- Promoting CSR awareness within the company
- Distributing the CSR Report and implementing surveys [Web](#)

Based on Kao Risk Management Policy, Kao makes a range of efforts to manage risks, including the formulation of a Business Continuity Plan (BCP) to be implemented in the event of large-scale disaster.

Kao sets priorities for risk management based on Kao Risk Management Policy. Recently, we have focused our efforts on the formulation of a Business Continuity Plan (BCP). Risks involved in business strategies are analyzed and countermeasures are discussed by the relevant departments; when necessary, discussion of these risks and countermeasures takes place in meetings of the Board of Directors or the Executive Committee. As to risks in business operations, including those associated with accidents and disasters, products, and information systems, each division has a designated person responsible for managing such risks. These systems and activities are strengthened mainly by the Risk Management Department and relevant divisions through Risk Management Committee meetings, Risk Management Promotion Liaison Meetings, and Overseas Risk Management Meetings.

Risk Management System

Basic concept—Risk Management Policy

To ensure that a higher level of consideration is given to quality, safety and the environment and to implement Kao's corporate philosophy of *Yoki-Monozukuri*, various possible risks associated with different business operations are analyzed so that their effects are properly understood. These risks are then appropriately controlled and the frequency of their occurrence has been reduced. At the same time, consideration must be given to measures to minimize damage in the event that a potential risk becomes a reality.

Kao conducts risk management based on Kao Risk Management Policy by specifying priorities in managing and addressing risks. Our four priorities are: (1) Protection of human lives, (2) Environmental conservation, (3) Continuation of operations and (4) Protection of assets.

Promotion of Risk Management

Implementation of surveys and quantification of major risks

As part of its risk management, Kao implements surveys of and quantifies major risks in individual divisions using a risk map. Divisional countermeasures are then drafted anew every year. Specifically, we develop scenarios in the event of various risks, including the shutdown of a plant due to a disaster, and estimate the amount of damage. We incorporate those risks considering the factors such as the level of a risk and the estimated amount of damage, in the company's risk map.

Sharing cases and information concerning risk management

The Risk Management Promotion Liaison Meeting introduces model cases of risk management activities to divisional members responsible for promoting risk management and organizes risk management seminars conducted by external specialists.

In fiscal 2007, the Risk Management Promotion Liaison Meeting provided information on the following themes:

- Verification of domestically occurred risks
- Examples of quantification of major divisional risks
- Companywide risk management and risk ownership (lecture by an external specialist)
- Formulation of a contingency manual to deal with infectious diseases
- Examples of dealing with divisional risks
- Summing up of divisional risk survey for fiscal 2007

Training for large-scale earthquakes

To confirm the safety of employees in the event of a natural disaster such as a large-scale earthquake, we have established a "telephone tree" for each work site and also introduced a system to confirm safety in case such an event occurs on work days, non-work days or during the night. We also have several days' worth of supplies of food and blankets for employees unable to return to their homes. These measures and the related specific procedures are clearly stated in the disaster contingency manual and BCP.

In fiscal 2007, Kao carried out training for responding to a large-scale earthquake. This training included initial reporting training, an evacuation drill, a practice drill of the safety confirmation system, and reporting training at the production and engineering, logistics and purchasing divisions.

List of articles concerning "Risk Management"

Items followed by the [Web](#) mark can be found on the Web site below.

<http://www.kao.co.jp/en/csr/report/08/risk/>

Risk Management System

- Basic concept—Risk Management Policy
- Establishment of a companywide risk management system [Web](#)
- Promotion of the PDCA cycle in risk management [Web](#)

Promotion of Risk Management

- Implementation of surveys and quantification of major risks
- Sharing cases and information concerning risk management
- Major risks and responses to their occurrence [Web](#)
- Training for large-scale earthquakes

Overseas Risk Management Activities

- Establishment of a risk management system at overseas subsidiaries [Web](#)

As a manufacturer of consumer products that are used by numerous people on a daily basis, Kao has established strict standards and rules for each specific phase in the life of our products, from development to production, distribution and sales.

Kao has established a Quality Management Practices Policy based on the consumer-driven concept of “Consumers/Customers to Decide on the Quality of the Products.” The product quality management system is controlled and overseen by our Product Quality Management division. We have also established strict standards for individual phases from research to product development, production, distribution and sales to ensure product quality management throughout the entire product life cycle and have established a traceability system regarding food quality. In fiscal 2007, we incorporated data relating to raw materials used in our food products into our Comprehensive Management System for Chemical Substances (see page 30) so that we could use the system during the research and development stage of food products. In addition, we have established a system to deal with urgent and serious incidents to ensure consumers/customers’ safety, establish causes and prevent recurrences.

Product Quality Management System

Basic concept

—Based on “consumer-driven” concept and “Genba-ism” principles

Using more than 10,000 different raw materials, Kao produces and sells a wide range of chemical and consumer products that amount to several thousand in total. To ensure that all of these products can be used by all consumers/customers with peace of mind, we have established policies for quality management activities (see page 16) based on the consumer-driven concept of “Consumers/Customers to Decide on the Quality of the Products” and “Genba-ism” principles.

Promoting quality management activities based on a companywide mechanism

The Quality Assurance Committee, which is a member committee of the Internal Control Committee, confirms the reliability and effectiveness of Kao’s companywide product quality management system. The Quality Assurance Committee, which consists of the board member in charge of the Product Quality Management and representatives of relevant divisions, determines important companywide policies and measures regarding quality management.

Following the policy of the Quality Assurance Committee, each of our four business units holds a Quality Assurance Meeting and confirms its quality management policy, quality-related problems and the progress of quality management activities.

In addition, each business unit holds a Quality Improvement Study Meeting to discuss the quality confirmation measures for new products and improved products and the quality improvement of products after their launch.

Representatives of both business units and corporate divisions participate in all such meetings to ensure discussions are conducted from the two perspectives.

The Product Quality Management division oversees these quality management activities as a whole.

Companywide Product Safety Management System

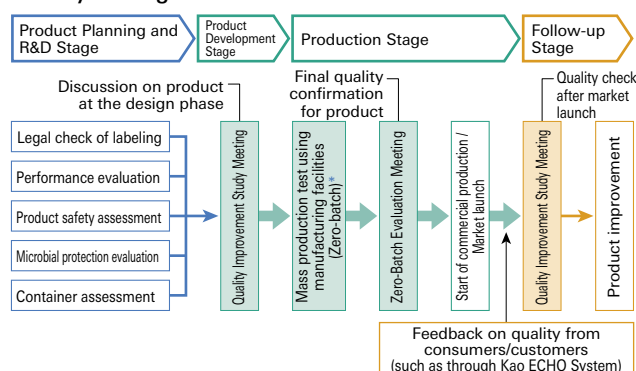
Formulation of Kao’s own safety standards

Since the revised Consumer Product Safety Law was enforced in 2007, the issue of manufacturers’ responsibility for consumer safety has received increased public attention. Kao takes its responsibilities seriously, placing strong emphasis on safety based on the basic concept of safety assessment. Kao considers the basis of *Yoki-Monozukuri* to be the development and provision of high quality, safe products. Specifically, Kao establishes its own safety standards, conducts scientific risk assessments and considers and evaluates various issues related to actual use and foreseeable misuse. So that we can immediately take appropriate measures to identify the cause and prevent recurrence if a problem should occur, we have established a companywide safety management system controlled by the Product Quality Management division.

Establishing emergency response system for serious incidents

Although Kao renews its commitment to *Yoki-Monozukuri* each day, the possibility that unanticipated

Quality Management Flow



*Zero-batch: Experimental manufacturing of a product as a final confirmation under actual conditions using the actual manufacturing equipment and containers.

incidents and problems may occur cannot be completely eliminated. We have prepared for the event of such occurrence by establishing a system under which the Consumer Communication Center collects information from consumers, external organizations and groups and distributors and promptly reports to the Product Quality Management about quality-related problems that are considered to be urgent and serious from the perspective of consumers. The Product Quality Management division immediately judges the nature of the reported incident in terms of the level of hazard and potential for expansion and reports such findings to senior management and relevant divisions. In addition it makes every effort to collaborate not only with the relevant internal divisions, but also with government and other related organizations and agencies, and distributors. When a foreign substance was discovered in a bottle of Healthya Green Tea in April 2008 (see box), this system functioned well.

Response to the discovery of a foreign substance in Kao's beverage product, *Healthya Green Tea*

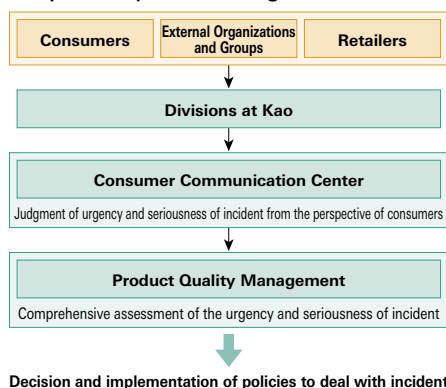
On March 31, 2008, a customer who had purchased a 350 ml plastic bottle of *Healthya Green Tea* at a Tokyo supermarket reported that the beverage tasted strange. Kao immediately collected the product and analyzed it. As a result, it was confirmed that a foreign substance (namely, glyphosate, a herbicide) was present in the beverage, suggesting the possibility that it was added intentionally after it was shipped from Kao. An emergency meeting was held and appropriate safety measures were implemented according to the response system for urgent and serious quality issues.

Quality Management for Food Products

Implementation of thorough product quality management from two perspectives

Kao operates a business of health care products. This business is engaged in the research and development

Response system for urgent and serious quality issues



of healthy foods and beverages that can be consumed with peace of mind as part of a normal diet. Our quality management of these products focuses on the following two areas:

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

* Original materials

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

Traceability and auditing of food products materials

Kao's food products are all produced in Japan. Kao has established a traceability system that can track all raw materials used in our food products. Using product lot numbers, these raw materials can be traced back to their countries of origin and/or cultivation and original materials, and checked for compliance with laws and regulations. In fiscal 2007, we incorporated the data of food products materials into the Comprehensive Management System for Chemical Substances so that we could use it from the research and development stage. In addition, Kao regularly audits our raw materials suppliers and meets with them to confirm the content of contracts and quality of their management systems. (see page 30, "Management of Chemical Substances")

List of articles concerning "Product Quality Management"

Items followed by the [Web](#) mark can be found on the Web site below.
<http://www.kao.co.jp/en/csr/report/08/quality/>

Quality Management System

- Basic concept—Based on the "consumer-driven" concept and "Genba-ism" principles
- Emphasizing the improvement of management quality [Web](#)
- Promoting quality management activities based on a companywide mechanism
- Pursuing "quality" in all activities of the entire company [Web](#)

Companywide Product Safety Management System

- Formulation of Kao's own safety standards
- Publicizing the disposal method of spray products [Web](#)
- Development and establishment of animal testing alternatives [Web](#)
- Establishing emergency response system for serious incidents
- Response to the discovery of a foreign substance in Kao's beverage product, *Healthya Green Tea*
- Voluntary recall of supplements [Web](#)

Quality Management for Food Products

- Implementation of thorough quality management from two perspectives
- Thorough management of "best-before" dates of food products [Web](#)
- Traceability and auditing of food products materials

To ensure the safety of all of our several thousand of individual products items containing a total of more than 10,000 different raw materials, we have compiled a database of ingredients of individual products which is utilized by all divisions.

The Comprehensive Management System for Chemical Substances is a database of ingredients of individual raw materials that Kao uses to ensure the safety of our products. In fiscal 2007, we enhanced the information management of the raw materials of food products and reinforced safety measures in the food supply chain. In addition, Kao actively participates in global systems for safety assessment of chemical substances.

Comprehensive Management System for Chemical Substances

Compiling a database of the quality of materials and safety for individual products

Kao has been operating the Comprehensive Management System for Chemical Substances since 2001. This system uses a Master Index^{*1}, which is an index of uniform identification codes assigned to individual materials and products and is used throughout the Kao Group. Using this system, in which Kao's products are registered by raw material and ingredient, we can instantly confirm the raw materials used in each product and, further, get information about the quality, safety, antiseptic and legal aspects of each raw material. Therefore, if a problem with a raw material occurs, we can instantly determine the extent of the impact. The Research & Development division utilizes this system in the design phase to confirm what kinds of materials are appropriate to use in the production of high-quality, safe, environmentally friendly products. In addition, this system can automatically prepare the detailed products ingredient labels that are necessary under the Pharmaceutical Affairs Law, the JAS Law and the Food Sanitation Law, minimizing the kind of mistakes that might otherwise be caused by human error.

To ensure compliance with revised domestic and foreign laws and regulations relating to international

harmonization in the classification and labeling of chemicals, namely, the GHS^{*2}, we enhanced this system and in addition began operation of our MSDS Preparation and Management System in November 2006. By doing so we were able to comply with GHS requirements regarding labeling and MSDS included in the revised Industrial Health and Safety Law that was enforced in December 2006.

In fiscal 2007, Kao enhanced our management of information about countries of origin, allergic substances, food additives and genetic modification for food products. We also introduced the Food Index to contribute to securing the safety of food in the food supply chain.

We will continue to improve our Comprehensive Management System for Chemical Substances to make it better able to respond to the speeding up of research and development and changes in international laws and regulations such as the RoHS Directive^{*3}, REACH Regulation^{*4} and so on.

* 1 The Master Index:

A hierarchical structure consisting of consumer products (M1), chemical products (M2), raw materials (M3) and ingredients (M4).

* 2 GHS:

Globally Harmonized System of Classification and Labeling of Chemicals

* 3 RoHS Directive:

EU directive on "the restriction of the use of certain hazardous substances in electrical and electronic equipment," enforced on July 1, 2006

* 4 REACH Regulation:

EU "Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals," enforced on June 1, 2007

List of articles concerning "Management of Chemical Substances"

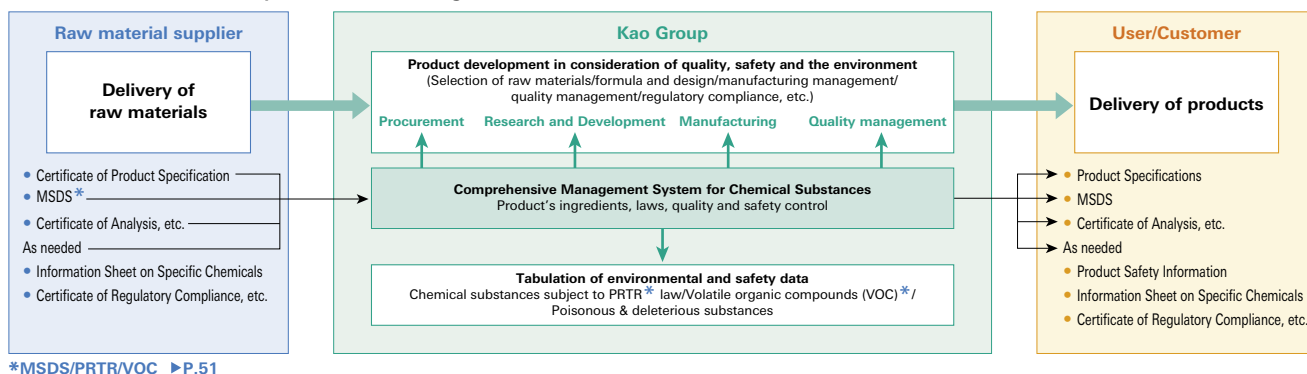
Items followed by the [Web](#) mark can be found on the Web site below.

<http://www.kao.co.jp/en/csr/report/08/chemicals/>

Comprehensive Management System for Chemical Substances

- Compiling a database of the quality and safety of materials for individual products
- Participation in domestic and international programs on chemical safety [Web](#)

Overview of Kao's Comprehensive Management of Chemical Substances



Kao has established the PDCA (Plan, Do, Check and Act) cycle through regularly held meetings, auditing and educational activities, and is steadily improving the quality of Responsible Care activities.

The Responsible Care (RC) initiative is the chemical industry's initiative for self-managed activities directed toward environmental preservation and safety. As part of our commitment to this initiative, Kao regularly holds meetings of the Committee for Responsible Care Promotion to manage each division's activities and discuss the targets for RC activities for the next fiscal year, based on the results of internal auditing. In fiscal 2007, we expanded the organization for RC promotion and began implementing domestic-based RC activities for the Kao Group. We also established the Environmental & Safety Data Management System ("Kanchan" System)*, in which data relating to environmental burdens and occupational accidents are integrated, and use it to reduce both.

RC Management System

Basic concept—As a member of the chemical industry

Kao promotes activities in line with the concept of the Responsible Care (RC) initiative, the chemical industry's initiative for self-managed activities directed toward environmental preservation and safety, to secure the safety of all stakeholders throughout the entire business cycle of product development, production, distribution and sales.

These activities are pursued by the divisions such as Research & Development and Production & Engineering based on the basic five elements of RC activities* plus the additional element: "to conduct dialogue with society."

* Basic five elements of RC activities

Environmental conservation, Process safety and disaster prevention, Occupational safety and health, Chemical and product safety and Distribution safety

Holding annual meetings of the Committee for Responsible Care Promotion and the RC Promotion Planning Meeting

Meetings of the Committee for Responsible Care Promotion, which is chaired by Board Director in charge of Environment & Safety and includes representatives from each division, are held in December each year.

The Committee for Responsible Care Promotion is one of the committees that constitute the Internal Control Committee. It addresses issues related to ensuring a complete understanding of the RC philosophy and reinforces the RC management



The RC Promotion Planning Meeting

system. The Committee also discusses the following fiscal year's targets for RC activities based on the results of internal auditing that is carried out every November. The RC Promotion Planning Meeting is held every March to deliberate each of the draft plans submitted by individual divisions.

Individual divisions endeavor to improve their activities based on the outcomes of these meetings.

Enhancement of RC activity promotion

In fiscal 2007, Kao increased the number of Kao Group's divisions in charge of RC promotion from eight to ten, and established activity units within the individual divisions to enhance RC activities.

Summary of the basic five elements of RC activities

• Environmental management

Kao's environmental standards, rules and systems include the following: "Provisions on CSR Procurement and Green Purchasing," "Provisions on Comprehensive Management of Chemical Substances," "Standards for Environmentally Conscious Product Design," "Five Product Development Principles," "Product Safety Study Meeting," and the "Environmental & Safety Data Management System ("Kanchan" System)."

• Safety and disaster management

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

• Occupational safety and health management

Together with the members of the health and safety committees at each Kao office and plant, we are improving working conditions and facilities and providing safety education with the goal of eliminating occupational accidents. At plants, we conduct risk assessments of machinery and equipment and safety assessments of chemical facilities based on the Occupational Safety and Health Management System (OSHMS) as a part of proactive efforts to address sources of risk. We have also established the Occupational Safety Subcommittee within the Production & Engineering Division to discuss safety activities across all plants.

• Chemical and product safety management

Kao has established "Provisions on Comprehensive Management of Chemical Substances" and the "Comprehensive Management System for Chemical Substances" (see page 30), and other rules and systems to manage everything from chemical raw materials to consumer products.

• Distribution safety management

To prevent distribution accidents and enforce standards, Kao requires its own employees engaged in distribution as well as driver of contracted transportation companies to carry a Yellow Card (see page 51). We also provide training sessions and conduct emergency response drills.

* Environmental & Safety Data Management System ("Kanchan" System)

The "Kanchan" System automatically accumulates the latest data on chemical substances subject to the PRTR Law, PRTR substances designated by the Japan Chemical Industry Association, volatile organic compounds (VOC), and other poisonous and deleterious substances. Data shared among the Kao Group includes that related to energy consumption, greenhouse gas emissions, soot and dust emissions, wastewater amounts, wastewater concentration measurements, soil and groundwater measurements, PRTR material amounts and emissions, waste materials generated, discharged and finally disposed, occupational accident statistics, traffic accident statistics and more.

Utilization of environmental and occupational safety database

Kao established the Comprehensive Management System for Chemical Substances and the Environmental & Safety Data Management System ("Kanchan" System) to promote companywide sharing of actual environmental and safety data, reduce the use of chemical substances subject to the PRTR Law and volatile organic compounds, and decrease the number of occupational accidents.

These systems have allowed us to accumulate data on the environmental burden of the Kao Group as a whole and its occupational accident reports, and automatically calculate greenhouse gas emissions and the frequency of occupational accidents. They have also increased the accuracy and speed of management activities conducted to ensure compliance with the PRTR Law and the issuance and management of MSDS.

RC Auditing and Education

Conducting self-audits and internal audits

Responsible Care Promotion Office annually implements internal audits of RC activities in November to determine each division's progress and challenges to be addressed. This information is utilized in the formulation of the next fiscal year's policies and targets after review by management at the Committee for Responsible Care Promotion meeting held in December each year.

In fiscal 2007, the individual divisions in charge of

RC promotion conducted self-audits of their activity units in October, and the Responsible Care Promotion Office conducted internal audits of the same divisions in November. These audits uncovered no significant problems.

Implementing continuous education

Kao continuously provides its own employees and the staff of its business partners with necessary education on ISO and occupational safety and health activities as part of its RC activities. Such education is implemented by the Responsible Care Promotion Office and divisional supervisors. In fiscal 2007, the Responsible Care Promotion Office provided a total of 397 divisional employees with training on the status of RC activities conducted by the Kao Group.

Results of RC Internal Audits conducted in FY 2007

* For the domestic Kao Group

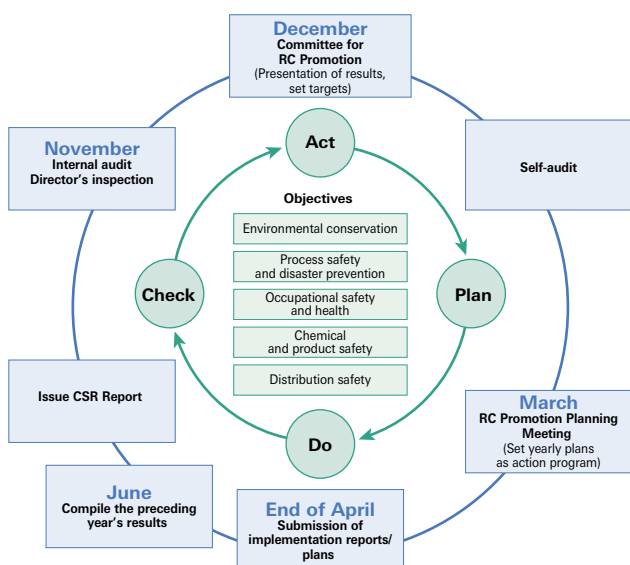
	Production & Engineering	R&D	Business Units	Corporate	Affiliates
No. of questions	44	32	57	58	109
No. of items requiring continued observation	7	3	7	8	22
Average evaluation score (5-point scale)	4.7	4.9	4.9	4.8	4.5

Results of RC education conducted in FY 2007

* For the domestic Kao Group

	Production & Engineering	R&D	Business Units	Corporate	Affiliates	Total
No. of training sessions	1	1	8	5	14	29
No. of participants	4	10	110	70	203	397

Annual Schedule for RC Activities



List of articles concerning "RC (Environmental/Safety) Activities"

Items followed by the [Web](#) mark can be found on the Web site below.
<http://www.kao.co.jp/en/csr/report/08/rc/>

RC Management System

- Basic concept—As a member of the chemical industry
- Philosophy & Policies Regarding the Environment and Safety [Web](#)
- Holding annual meetings of the Committee for Responsible Care Promotion and RC Promotion Planning Meeting
- Enhancement of RC activity promotion
- Summary of the basic five elements of RC activities
- Utilization of environmental and occupational safety database

RC Auditing and Education

- Conducting self-audits and internal audits
- Implementing continuous education

Responsibilities to Stakeholders

Responsibilities to Consumers
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Responsibilities to Corporate Customers
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Responsibilities to Employees
37

Responsibilities to Suppliers
40

Responsibilities to Shareholders and Investors
41

For Communities
42

Based on our consumer-driven policy, Kao is devoted to fulfilling *Yoki-Monozukuri* by communicating on a deeper level with consumers who purchase our products.

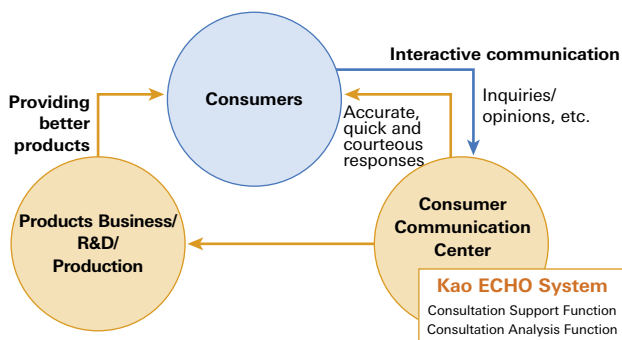
Kao has established a companywide mechanism to receive consumer opinions and reflect them in *Yoki-Monozukuri*. Comments and requests made by consumers via consultation services and consumer attitude surveys are shared among relevant divisions. These comments and requests are used in product improvement, new product development and creation of advertising messages. In addition, we provide various types of information on our Web site and at seminars and participate in events targeting experts in nutrition, consumer groups and administrative agencies. In fiscal 2007, we announced our position on the use of Chinese materials and products in terms of safety on our Web site and compiled a "Products Q&A" section of the items about which we received numerous inquiries. In addition, to improve our response to consumers outside Japan, we began sharing information with people working at our subsidiaries and affiliates in other Asian countries and Australia via our intranet.

Mechanisms to Reflect Consumer Opinions in *Yoki-Monozukuri*

Aiming to accomplish our corporate mission

As per its corporate mission and in accordance with our corporate philosophy, The Kao Way, Kao is striving for the satisfaction and enrichment of the lives of people through *Yoki-Monozukuri* from the perspective of the consumer. To fulfill this mission, Kao sincerely listens to consumer opinions, shares the issues to be tackled—which have been identified by our consumer consultation services—within the entire company using our own information system, the Kao ECHO System, and utilizes consumer feedback in product improvement and new product development. In this way, Kao has established a companywide mechanism to reflect consumer opinions in our *Yoki-Monozukuri*.

Mechanism to Reflect Consumer Voices in Products



Incorporating consumer feedback into product development

Through collaboration among its development, research, production and other relevant divisions, Kao utilizes comments and requests received from consumers through close communications with them in product improvement and new product development. Consumer opinions are widely reflected not only in the improvement of product performance, but also in improving containers' ease of use, preparing easy-to-understand labels and creating advertising messages.

In fiscal 2007, we received approximately 133,000 consumer inquiries, almost the same as the previous year.

TOPICS

Product improvement based on consumer opinions

- Affixing an "Unopened" security seal to replaceable products for *Kyoryoku Kabi Haiter Mold Remover* and *Kitchen Haiter Foam*

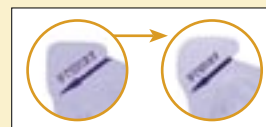
As noted by the "DANGER! DO NOT MIX" caution mark affixed to these products, mixing foreign substances with chlorine bleaching and cleansing agents, can generate poisonous gas and cause an accident. To prevent these products from being contaminated with foreign substances in stores without the consumer's knowledge, Kao affixes a security seal to spray-type *Kyoryoku Kabi Haiter Mold Remover* and *Kitchen Haiter Foam*.

Since February 2008, Kao has also affixed such a security seal to the caps of our replaceable products. The security seal is torn when the cap is removed, showing the user that the product has been already opened.



"Unopened" security seal

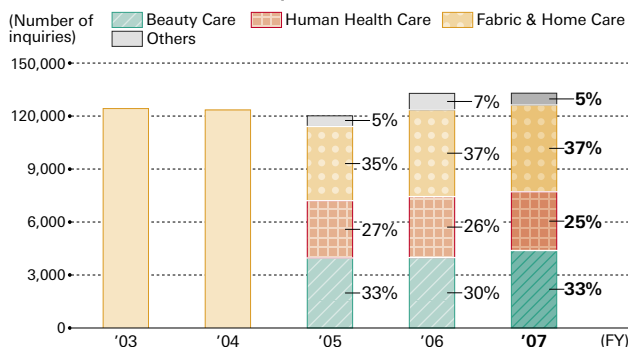
- Improvement of the spout of *Bioré u* refill products



Improvement of the spout's tab

In response to a consumer comment that it was difficult to tear the spout of the *Bioré u* refill while taking a bath, in March 2007, we modified the size and shape of the spout's tab to allow users to tear it easily, even with wet hands.

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



Providing Appropriate Information

Promoting the provision of information and educational activities from a consumer perspective

Information needed by consumers ranges from instructions about the proper use of products to information on safety and the environment and daily life information related to products. Kao identifies the types of information needed from various angles and provides it in an appropriate manner.

In fiscal 2007, in response to a great deal of consumer concern regarding the safety of products, we provided information to relieve such concern and ensure consumer safety via our Web site. When questions about the safety of raw materials and products originating in China were reported, we immediately announced that Kao's products were safe. We provide information about preventive measures at appropriate times in relation to the risk of aerosol products catching fire and food poisoning caused by norovirus, which increases in winter. In addition, we launched a new section of our Web site, "Products Q&A," which provides answers to frequently asked questions as well as information on Kao's products and their safety.

In the same year, we conducted educational seminars on healthy diets and metabolic syndrome—two topics that had caught the public's attention—in response to requests from administrative agencies, schools and companies. We also expanded the range of our educational activities and provided seminars on household tasks, including laundry and cleaning, and hand-washing courses for children.



Educational seminar on diet and health

Partnerships with Consumer Groups and Other Organizations

Actively exchanging opinions with consumer groups and administrative agencies

Kao's Consumer Communication Center actively participates in meetings for exchanging opinions with consumer groups and in projects conducted by administrative agencies.

We held a meeting for exchanging views with the Tokyo League of Regional Women's Organizations in April 2007. We also held similar meetings with the Nippon Association of Consumer Specialists and the Tokyo Metropolitan Government "Consumer Month" Executive Committee in July 2007, and with the Japan Association of Consumer Affairs Specialists in February 2008. At these meetings, Kao explained its policies and specific efforts concerning CSR, environmental conservation and product safety and took part in active discussions.

In October 2007, Kao participated in the "Kurashi Festa Tokyo," a joint project between the Tokyo Metropolitan Government and consumer groups. We demonstrated our efforts to assure the quality of food products and held a presentation on how surfactants remove dirt.



Kurashi Festa Tokyo in 2007

List of articles concerning "Responsibilities to Consumers"

Items followed by the **Web** mark can be found on the Web site below.
<http://www.kao.co.jp/en/csr/report/08/consumer/>

Mechanisms to Reflect Consumer Opinions in Yoki-Monozukuri

- Aiming to accomplish our corporate mission
- Information infrastructure supporting Yoki-Monozukuri — Kao ECHO System **Web**
- Incorporating consumer feedback into product development
- Affixing an "Unopened" security seal to replaceable products of *Kyoryoku Kabi Haiter Mold Remover* and *Kitchen Haiter Foam*
- Improvement of the spout of *Bioré u* refill products
- Reinforcement of the caution mark on *Blauné Hair Manicure* **Web**

Surveys of Consumer Attitudes

- Surveying consumer attitudes and consumer satisfaction **Web**

Providing Appropriate Information

- Promoting the provision of information and educational activities from the consumer perspective
- Holding a cleaning seminar for people with visual disability **Web**

Overseas Group Companies' Responses to Consumers

- Global Promotion of Yoki-Monozukuri **Web**

Partnerships with Consumer Groups and Other Organizations

- Active opinion exchange with consumer groups and administrative agencies

Kao has established strong partnerships with a variety of corporate customers through day-to-day business operations.

Retailers of our consumer products and cosmetics, and sales agents and corporate customers of our chemical and professional-use products are all our important business partners. We aim to build and maintain strong corporate partnerships with these corporate customers and achieve our mutual prosperity by providing them with better products and promoting close exchange of information.

Cooperation with Retailers

Promoting information sharing with retailers

The role of Kao Customer Marketing (Kao CMK) is to strengthen cooperation with Kao's retailers in collaboration with Kao Merchandising Service, which provides support to retailers' in-store activities. As well as providing retailers with Kao's products, we also aim to contribute to their prosperity and the development of Kao's products as well as to the improvement of our sales activities by sharing of information with them. As part of these efforts, we hold seminars and study sessions for retailers' sales personnel who have direct contact with consumers to explain the characteristics, performance and uses of our products as well as market trends. In fiscal 2007, we held approximately 1,500 of these seminars and study sessions.

To improve Kao's business performance we utilize the first-hand experience of those in the field by soliciting new product ideas directly from the sites of retail sales and consumption. In fiscal 2007, we received 7,617 ideas from 4,142 people.

Cooperation with Customers of Chemical Products

Promptly responding to market changes by closely sharing information

The chemical business is one of Kao's core businesses, and we provide chemical products (intermediate materials) to customers operating within a wide range of industries throughout the world.

In this business, we must promote development that keeps pace with rapidly changing markets, and it is essential to closely share information with corporate customers to provide safe and high-quality products.

In fiscal 2007, via its Asian affiliates, Kao began dealing with the requirements of the Globally Harmonized System of Classification and Labelling of Chemicals (GHS), which manages dangerous and hazardous chemical substances under an international framework. In addition, Kao



GHS seminar for sales agents

manages its compliance efforts with the REACH Regulation (Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals), one of the EU's major chemical initiatives, in collaboration with KCE (Kao Chemicals Europe S.L.).

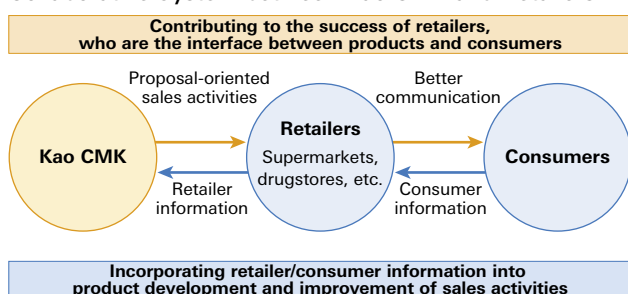
Cooperation with Customers of Professional-Use Products

Supporting customer efforts for hygiene, safety and environmental management

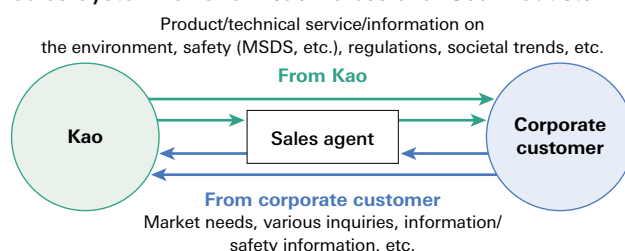
Kao Professional Service provides cleansing agents and other professional-use products to companies and facilities that need high-level cleansing capabilities and hygiene management, including the food service and food processing industries, hospitals and the dry cleaning industry. The company also provides these corporate customers with a set of solutions, including improvement proposals, result verification and manual preparation, concerning hygiene, safety and environmental management according to individual work environments where products are actually used.

In fiscal 2007, Kao jointly developed a new hygiene management mechanism with a major food service company. In addition, to deal with changes in corporate customers' working environments, such as the increase in around-the-clock operation of stores and in the employment of inexperienced part-time and non-regular staff, we established Kao Customer Support Center and Emergency Medical Consultation Hotline to provide consultation 24 hours a day, seven days a week.

Collaborative System between Kao CMK and Retailers



Sales System for Chemical/Professional-Use Products



Based on employee opinion surveys, Kao promotes the development of education and personnel systems and a working environment that allows all employees to exercise their abilities freely and easily.

By integrating each employee's knowledge and wisdom and employing innovative thinking in the operation of the organization, individual capabilities are united to generate greater power. Kao's basic policy regarding human capital development is to create an environment and corporate culture in which employees' individual efforts to achieve their personal career goals are aligned with the company's efforts to achieve its corporate objective. It is Kao's aim that employees, fully exercising their unique abilities in their own style in the individual pursuit of their goals, will push the company to new heights and will be the overall strength of the company. Following this policy, Kao actively develops various personnel systems, improves work environments and works to create a corporate culture in line with the opinions expressed in our employee opinion survey, "Find."

Employee Opinion Survey "Find"

Reflecting employee opinions in the development of various personnel systems and improvement of work environments

The "Find" survey is conducted with the aim of increasing the advantage of Kao's organizational culture, identify issues to be addressed and address them. We consider the survey to be a kind a "physical check-up" of the organization and have conducted it once every two years since fiscal 2001. To ensure that the findings of the survey lead to actual improvement of business processes and productivity, each division draws up and implements its own action plan.

The survey conducted in July 2007 was given to not only all employees of domestic group companies, but also the management personnel of our overseas group companies. According to survey results, respondents considered Kao Group's strengths to be its "Customer orientation," "Clear goal setting and the uniformity of direction," "Corporate culture of striving to achieve high goals," and "Thorough compliance." As future challenges, respondents gave the improvement of "Communication (inter- and intradivisional)" and "Work-life balance." In fiscal 2008, we will discuss these challenges throughout the entire company and implement action plans for improvement.

Human Capital Development and Training

Establishing training courses that respect the initiative of individual employees

Kao implements various kinds of training programs

suitable for individual jobs and roles in accordance with the Policies on Human Capital Development Training based on Kao's policy on human capital development. Before developing training programs, we conduct assessments of business needs, interviews, and questionnaire surveys to ensure that the programs are suitable for individual jobs and roles. In addition, we design training courses in such a way that increases employees' self-motivation to learn.

Training to foster the future leaders of Kao's business in Asia

Kao began implementing the Asian Leadership Training program in fiscal 2007 with the aim of fostering business leaders who will accelerate the growth of its business in Asian markets. The purpose of this training is to share the targets and values linked with The Kao Way and help participants acquire specific leadership skills. As members of the inaugural class, 24 employees from eight Asian nations participated in the nine-month training program.

Promotion of Diversity and Respect for Individuals

Eliminating all forms of discrimination

Kao's Business Conduct Guidelines includes a provision to "Respect Employees' Individual Human Rights and Diversity, and Maximize Their Potential." Following this guideline, Kao strives to eliminate discrimination on the grounds of culture, nationality, religion, creed, race, gender, age, physical ability, etc. and establish an "Equal Partnership" based on respect for the dignity and value of each individual employee.

Advancing an Equal Partnership

Kao has been engaged in Equal Partnership (EPS) promotion activities since 2000 with the aim of achieving a happy and comfortable workplace where diversity is respected and discrimination is not tolerated, and where employees are motivated to work hard and effectively.

Kao continued to implement five kinds of training programs targeting new employees and newly appointed managers on a total of 10 occasions in fiscal 2007 to help them understand the purpose and efforts of this program and reflect EPS in our daily business activities.

In February 2008, we established an "Equal Partnership Promotion Network," the objective of which is to ensure the basics of Equal Partnership promotion, with members chosen from each division and each affiliate participating in twice yearly meetings. The themes for fiscal 2008 are the "Prevention of harassment" and "Promotion of work-life balance."

Pursuing gender equality

Kao endeavors to actively increase work opportunities for women based on the principle that employees regardless of gender should face no barriers to exercising their abilities.

At meetings related to personnel matters such as recruitment, promotion and education, we ensure that certain targets for the representation of women are achieved.

As a results of these efforts, in fiscal 2007, the percentage of female managers at Kao Corporation was 7.7% (the percentage of female employees was 17.5%), up one percentage point from the previous year. The percentage of female managers in the entire Kao Group was 19.9% (the percentage of female employees in the entire Kao Group was 51.0%), while the percentage of female managers working at our American and European affiliates was 49.2% (the percentage of female employees at American and European affiliates was 44.8%).

Encouraging male workers' participation in child care

Since the 1980s, Kao has been supporting the work-life balance of its employees. In fiscal 2006, we introduced a system whereby the first five days of child-care leave could be taken as paid holidays in order to encourage

male workers' participation in child care.

One male employee who used this system reported that he became much more aware of his responsibilities and his family was very appreciative. Many others said that they would encourage others to use it too. In fiscal 2007, the number of employees in the domestic Kao Group as a whole who took child-care leave increased to 500 women (a



Mark designating companies certified under the Law for Measures to Support the Development of the Next Generation

Employee Data

		FY 2005	FY 2006	FY 2007
Permanent employees	Female	3,022	9,123	11,479
	Male	8,289	9,744	9,884
Contract employees	Female	2,194	6,161	4,011
	Male	90	148	145
New employees (permanent and contract employees)	Female	798	2,199	1,403
	Male	168	307	345
Employees who took child-care leave	Female	142	355	500
	Male	1	32	66
Percentage of female managers (%) * Kao Corporation Japan only		6	6.7	7.7
Percentage of people with disabilities employed (%) * Kao Corporation as of June 1, 2008		1.89	2.13	2.25

* Calculation based on inclusion of Kao Corporation, Kao Customer Marketing Co., Ltd., Kao-Quaker Co., Ltd., Kao Professional Service Co., Ltd., and Ehime Sanitary Products Co., Ltd. Kanebo Cosmetics Inc. and Kanebo Cosmetics Sales Inc. were also included after fiscal 2006.

141% year-on-year increase) and 66 men (a 206% year-on-year increase).

Consideration for Employees' Health and Lifestyle

Supporting employees' health management

Kao has been promoting a health program called "KAO Health 2010" since fiscal 2005 to "promote health consciousness among employees and help more employees maintain their physical and mental health." Specifically, based on the results of health examinations and interviews, we not only recommend early detection and treatment, but also provide employees with healthcare focused on preventing lifestyle-related diseases. In addition, we conduct various support activities in cooperation with our corporate health insurance union to encourage employees to voluntarily improve their lifestyle habits.

From April 2008, Kao will encourage all insured workers (employees) aged 35 or over to take health check-ups with a particular focus on the metabolic syndrome and will provide them with healthcare advice with a particular focus on metabolic syndrome by occupational health nurse.

• Participation rate of FY 2007 annual health check-up

- Participation rate of check-up: 99.9%

• Activities to improve lifestyle habits in FY 2007

- Walking challenge
Participants: 3,084 (Total number of employees targeted: 15,508, Participation rate: 20%)
- Health mileage
Participants (registrants): 4,264 (Participation rate: 27%)
- Outpatient services for quitting smoking, losing weight, etc.

Occupational Safety, Process Safety and Disaster Prevention

Occupational accidents and Kao's response in 2007

• Occupational accidents in the entire Kao Group in Japan

The number of employees who suffered from occupational accidents in the entire Kao Group in Japan including its affiliates leveled off at 115 in 2007, compared to 114 in 2006. The number of employees suffering injuries resulting in lost work days decreased to 29 in 2007 from 32 in 2006. With regard to accidents whereby victims are caught or stuck in machinery and traffic accidents, on which we have traditionally focused our efforts for reduction, the number of employees affected decreased. On the other hand, the number of employees involved in non-job-specific accidents (falling

or tripping over, falling down the stairs, etc.) increased, resulting in the leveling off of the number of employees who suffered occupational accidents.

• Occupational accidents in the Production & Engineering and the Research & Development divisions

The number of employees who suffered injuries resulting in lost work days was zero in 2007. The total number of employees who suffered from occupational accidents was 26, up five from the previous year. The cause of the increase was non-job-specific accidents, such as falling or tripping on stairs or single steps. We will continue to conduct activities aimed at increasing individual employee awareness of safety to address this issue.

Implementation of seminars for employees who are responsible for the environment and safety of six plants in the ASEAN region

In December 2007, Kao invited employees who are

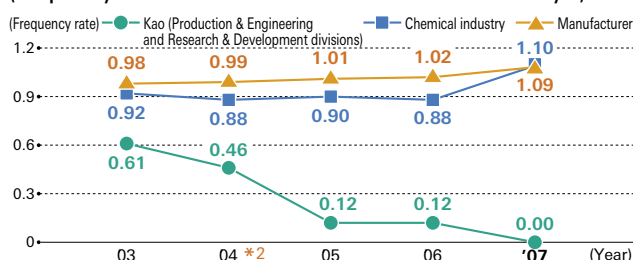
responsible for the environment and safety of six plants in the ASEAN region (Thailand, Malaysia, Indonesia, the Philippines and Vietnam) to Kao's Wakayama Plant. There, we provided them with group education and conducted meetings to exchange opinions with the aim of improving the level of safety, disaster prevention and environmental management at those plants.

Plant fires

While the Kao Group had no serious fires in 2007, there was one fire at an overseas plant (a tank installed on the roof of Kao Brands Company (KBC) spontaneously burst into flame due to a leaking valve in July) and two small fires at domestic plants. These fires caused no injuries.

Kao took these accidents seriously and reinforced patrols and maintenance to prevent leaks in the production process and older equipment from catching fire.

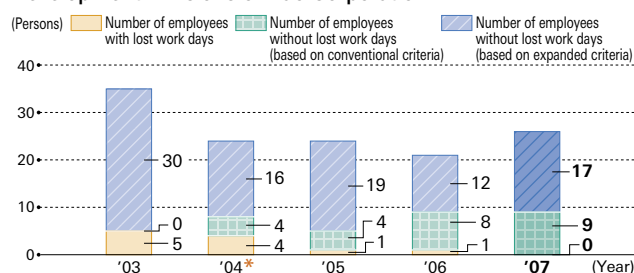
Changes in Occupational Accident Occurrence (frequency rate of accidents with more than one lost day^{*1})



^{*1}: Frequency rate: Numbers of deaths and injuries due to occupational accidents per million hours worked.

^{*2}: Regarding the occupational injuries that occurred without corresponding lost work days in 2004, one sufferer was certified as disabled, therefore, the frequency rate was altered from the previous report.

Changes in the Number of Employees Injured by Occupational Accidents in the Production & Engineering and the Research & Development Divisions of Kao Corporation



^{*} Regarding the occupational injuries that occurred without corresponding lost work days in 2004, one sufferer was certified as disabled. Therefore, that person was counted in the number of employees with lost work days rather than in the number of employees without lost work days as reported in the previous report.

List of articles concerning "Responsibilities to Employees"

Items followed by the **Web** mark can be found on the Web site below.

<http://www.kao.co.jp/en/csr/report/08/employee/>

Employee Opinion Survey "Find"

- Reflecting employee opinions in the development of various personnel systems and improvement of work environments

Human Capital Development and Training

- Establishing training courses that respect the initiative of individual employees
- Introducing self-study training programs accessible over the company intranet **Web**
- Training to foster the future leaders of Kao's business in Asia
- Promoting educational activities aligned with The Kao Way within the Kao Group **Web**
- Training to pass on technologies and skills **Web**

Fair Evaluations and Compensation

- Fair evaluation of individual employees' abilities and performance **Web**
- Human resource evaluation system **Web**
- Employee Invention System **Web**

Promotion of Diversity and Respect for Individuals

- Eliminating all forms of discrimination
- Advancing an Equal Partnership
- Pursuing gender equality

- Supporting a work-life balance **Web**
- Encouraging male workers' participation in child care
- Employment of people with disabilities **Web**
- Introduction of the Senior Partner System for re-employing retired employees **Web**
- Creating a workplace free of discrimination and harassment **Web**
- Emphasizing dialogues with employees **Web**

Consideration for Employees' Health and Lifestyle

- Supporting employees' health management
- Mental health care **Web**
- Reinforced management of appropriate working hours **Web**
- Support for retirees **Web**

Occupational Safety, Process Safety and Disaster Prevention

- Occupational accidents and Kao's response in 2007
- Plant fires
- Promoting safety and disaster prevention activities based on reflection upon the accidental explosion **Web**
- Emergency Report Training **Web**
- Asbestos control measures **Web**
- Implementation of seminars for employees who are responsible for the environment and safety of six plants in the ASEAN region

From Green Procurement to CSR Procurement, Kao strives to live up to society's trust, in cooperation with suppliers.

Kao established the Guidelines for Procurement of Raw Materials to promote fair and ethical procurement activities with suppliers. In addition, Kao is strengthening partnerships with suppliers by sharing technical information, for example, so that we can achieve our common business objectives.

Cooperation with Suppliers

Establishing a collaborative system with suppliers

Suppliers of raw materials, packaging and container materials, equipment and so on are indispensable business partners for Kao. In accordance with our Guidelines for Procurement of Raw Materials, Kao promotes procurement activities with our suppliers emphasizing fairness, compliance/ethics, and social responsibility. Kao is also strengthening partnerships with suppliers by sharing our business objectives and exchanging technical information about the quality and specifications we demand of our raw materials.

Holding supplier meetings

Kao strives to deepen mutual trust with suppliers through communications as part of daily business transactions with each supplier and by providing opportunities for regular exchanges of information and opinions.

In fiscal 2007, we held a supplier meeting to discuss the following themes; procurement guidelines, the results of the supplier satisfaction survey and measures arising from it, the results of the social and environmental evaluations in CSR procurement and risk management for raw material procurement. The meeting was attended by 174 suppliers of raw materials, packaging and container materials and equipment and others.

Holding quality improvement meetings

When quality issues arise, we hold quality improvement meetings with suppliers and mutually confirm the measures to address the issues. In this way, we are promoting quality improvement activities in relation to raw materials.

In fiscal 2007, we held a total of 99 quality improvement meetings with the participation of 46 suppliers, dealing with such issues as wrongly shaped and poorly printed packaging and container materials.

Fair and Ethical Transactions

Supplier satisfaction survey

Kao commissions an outside company to conduct a supplier satisfaction survey every two or three years in order to confirm whether we are perceived to be conducting fair and ethical procurement activities in compliance with regulations.

In fiscal 2007, we conducted an anonymous survey targeting approximately 160 of our major suppliers. The results of their evaluation of 32 items, including supplier selection, quality, price negotiation, interpersonal interactions, ordering and communication, were indexed and have been reflected in our procurement activities.

Thorough compliance with the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors

We established an organization to deal with the Act at individual offices and divisions of Kao Group companies to ensure thorough compliance with the Act in accordance with our internal guidelines. In fiscal 2008, we began providing e-learning programs for employees in charge of practical business tasks related to the Act and make more active efforts to ensure our thorough compliance.

Examination of CSR Procurement Standards

From Green procurement to CSR procurement

In accordance with our Green Procurement Standards established in April 2004, Kao has been conducting evaluations of environmental efforts made by suppliers' plants, including the establishment and operation of an environmental management system (EMS) (see page 51). To promote CSR procurement, Kao revised the Green Procurement Standards into the CSR Procurement Standards in January 2007. Based on the revised standards, we examine and evaluate our suppliers not only for environmental, but also social aspects, including compliance with laws and social norms, efforts to deal with labor and human rights issues, corporate citizenship activities, business transactions and management and operation systems.

In fiscal 2007, we examined and evaluated 580 suppliers (487 Japanese and 93 overseas companies) for their social aspects and confirmed that 96.0% of them met the standards. In October 2007, we began evaluating suppliers of 12 Kao group companies outside Japan.

Companies that do not meet the standards are requested to make improvements by establishing appropriate systems and upgrading their operations.

Kao is promoting information disclosure and communication activities to live up to the trust and expectations of shareholders and investors.

To maintain good relations with its shareholders and investors, Kao has a basic policy of promoting information disclosure and communication and paying stable and regular dividends. Kao strives to disclose information in a manner that is timely, accurate and fair in accordance with its Disclosure Guidelines. With regard to communication activities, we emphasize interactive communication, which includes discussions at general shareholders meetings and providing contact us page on Investor Relations section of our web site to respond to inquiries from investor.

Dividend Policy and Performance

Aiming at a dividend payout ratio of 40%

Kao sets basic policies on internal reserves and distribution of profits with the aim of achieving profitable growth in the long term and ensuring stable future performance.

We place importance on providing shareholders with steady and continuous dividends and, since fiscal 2006, have a target payout ratio* of approximately 40% of consolidated net income.

In addition, considering investments for future growth including capital expenditures as well as acquisitions, enhancement of capital efficiency and balanced allocation of the cash between share repurchase and repayment of interest-bearing debt, Kao resumed the share repurchases as part of shareholder return in fiscal 2007. We purchased the company's stocks worth 30 billion yen.

We decided to increase the annual cash dividend for the fiscal year ended March 2008 from the previous fiscal year by 2 yen per share to 54 yen per share, which marked our 18th consecutive annual dividend increase. The consolidated dividend payout ratio came to 44.1%.

* Dividend payout ratio

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

Information Disclosure and Communication

Promoting information disclosure emphasizing fairness

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

In the announcement of earnings, we file our business results report and presentation materials used at our analysts meeting on the TDnet. This information is also posted in the Investor Relations section of

our Web site. From the perspective of timely and fair disclosure, we disclose information simultaneously in Japanese and English to domestic and foreign institutional investors and individual investors. On our Web site, we offer a subscription-based e-mail service that provides information related to business results and news releases. We also provide a service to respond to inquiries from investors and promote interactive communication.

Activating Shareholders Meetings and facilitating the exercising of voting rights

To provide shareholders with enough time to examine agenda items, Kao usually sends a convocation notice approximately one month prior to the Annual General Meeting of Shareholders. In addition, to increase the number of shareholders who exercise voting rights, we introduced an electronic voting system for the regular Annual General Meeting of Shareholders in 2006.

To provide rapid and fair information disclosure to foreign shareholders, who hold approximately half of our shares, we make an English translation of the summarized convocation notice available to them at the same time as distributing the Japanese version. We also post presentation information at the Meeting and voting results from the Annual General Meeting of Shareholders in both Japanese and English on our Web site.

The Annual General Meeting of Shareholders held in June 2007 was attended by 758 shareholders. In addition to inquiries about the agenda items, we received various comments and inquiries from attended shareholders concerning such topics as Kao's business in China, evaluation of advertising and packaging, appointment of female executives and so on, which made for a lively meeting.



Shareholders Meeting in 2007

Holding a presentation on the Company for investors in collaboration with an NPO

Kao strives to announce its business results and current financial condition rapidly and accurately through presentation for shareholders and investors, media interviews and so forth.

In fiscal 2007, we held a presentation, including a visit to one of our facilities, for individual investors to give them a better understanding of the company. The presentation was held in collaboration with APROSIS (Association for Promoting Securities Investment and Study), an NPO that provides training on securities and securities investment targeting students, individual investors, consumers, investment clubs and so on.

Aiming at co-existence and co-prosperity with local communities, Kao promotes corporate citizenship activities, disaster relief activities and exchanges with communities.

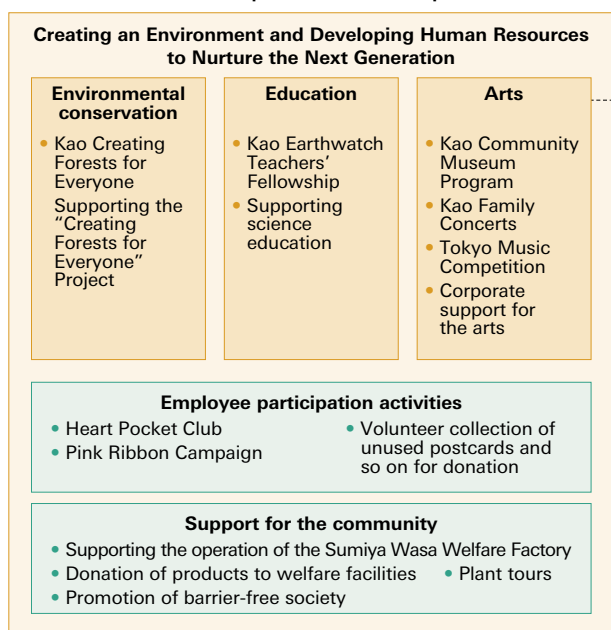
From fiscal 2007, Kao has been conducting corporate citizenship activities under the theme of **"Creating an Environment and Developing Human Resources to Nurture the Next Generation,"** focusing on the environment, education, and arts as the three areas of priority. Kao established **"Kao Global Donation Guidelines"** and unified the standards concerning donations made by the Kao Group. In exchanges with communities, individual domestic and foreign plants and offices promote various activities according to their business and the characteristics of their local communities, such as conducting plant tours, participating in and providing support for local events, cooperating with local economic organizations and projects to revitalize local communities, providing science education, holding Kao Family Concerts and cleaning up the areas surrounding Kao facilities.

Corporate Citizenship Activities

"Creating an Environment and Developing Human Resources to Nurture the Next Generation"

Since fiscal 2000, Kao has been conducting various social contribution activities under the unified theme of **"Nurturing the Next Generation"** and based on Kao's business characteristics and social challenges. From

Overview of Kao's Corporate Citizenship Activities



Kao Foundation for Arts and Science

fiscal 2007, Kao narrowed the theme to **"Creating an Environment and Developing Human Resources to Nurture the Next Generation,"** focusing on the environment, education, and arts as the three areas of priority.

Commencement of the Kao Community Museum Program

In 2007, Kao launched the Kao Community Museum Program, an aid program for citizens' groups that conduct civil activities related to museums around the country.

The purpose of the program is to contribute to the development of civil activities and regional culture by funding various civil activities related to museums, and thereby also contributing to the revitalization of the museums themselves. In addition, the program not only contributes funding to individual civil activities but also



Exchange meeting between citizens' groups

supports exchanges between citizens' groups aimed at developing civil activities.

In fiscal 2007, the program received 154 grant applications, 16 of which received funding from us.

Funding citizens' groups in the Tochigi region

Kao Heart Pocket Club, a charity organization operated by employee volunteers, has developed a new system to support citizens' groups that operate in areas where Kao's offices are located with the aim of contributing to the creation and improvement of local communities. Specifically, the club has been providing funding to citizens' groups operating in the Tochigi region since 2007, in cooperation with the Tochigi Volunteer Network, a specified nonprofit organization that



Heart Pocket Club's presentation ceremony for regional funding

operates within the region. Regarding this program, Kao subsidizes the aid fund's operational expenses and administrative expenses.

Implementation of the "Million-Person Pink Ribbon Campaign," one of Kao Group's joint social contribution projects

Kao Corporation, Kao Customer Marketing Co., Ltd., Kanebo Cosmetics Inc., and Kanebo Cosmetics Sales, Inc. jointly implemented the Kao Group's Million-Person

Pink Ribbon Campaign in October 2007. Specifically, in-store beauty advisers/counselors for Kao's brands *Sofina* and *est* and Kanebo Cosmetics distributed leaflets to raise awareness about the benefits of early detection of breast cancer and provide other accurate information about the disease. This campaign reached a large number of people. The leaflet was also distributed to all employees of the Kao Group in Japan to raise their awareness of the importance of early detection.



In-store campaign activity



Leaflet

Disaster Relief Activities

Unifying standards concerning donations made by the Kao Group

The "Kao Global Donation Guidelines" established standards for providing donations for, among other things, disaster relief. Under the guidelines, donations can be given for disasters falling into one of the following three categories:

1. In Japan, major disasters for which a Disaster Countermeasures Headquarters is established
2. In other countries, disasters that occur in the countries and regions where Kao Group companies are located, and for which assistance is needed

TOPICS

Providing assistance to people in the areas afflicted by the Niigata Chuetsu Offshore Earthquake

After the Niigata Chuetsu Offshore Earthquake in July 2007, we dispatched employees to the scene one day after the quake and conducted relief activities in coordination with the Niigata Prefectural Government's Disaster Countermeasures Headquarters. We also provided daily necessities worth five million yen, including dishwashing detergents for washing cooking pots used by the Self-Defense Forces to prepare hot meals, disposable diapers for children and adults, and toothbrushes.

We also donated two million yen in relief money through the Disaster Countermeasures Headquarters, and one million yen for emergency relief and reconstruction activities undertaken by NPOs and NGOs through a specified non-profit organization, Japan Platform. In addition, the Kao Heart Pocket Club, a charity organization operated by Kao employees, donated 400,000 yen (of which 200,000 yen was donated by Kao as a matching gift) through the Central Community Chest of Japan for volunteer activities.

3. Large-scale disasters that occur throughout the world

Exchanges with Communities

Implementation of plant tours

We conduct plant tours at all domestic plants of the Kao Group. In fiscal 2007, a total of about 34,000 people, including neighboring residents, elementary school children, junior high and high school students, university students, and members of various citizens' groups, participated in our plant tours.

Tours of the plants in Wakayama, Toyohashi, Kashima, Tochigi, Sakata and Kawasaki, include demonstrations of chemical experiments using familiar Kao products, surfactants and super absorbent polymers. The object of these demonstrations is to show how Kao products work and at the same time get students interested in chemistry. The Sakata Plant dispatches personnel to local communities to demonstrate scientific experiments.

Consideration for plant tour participants with disabilities

In fiscal 2005, a total of 1,091 tours, in groups and as individuals, took place at Kao's domestic plants. Approximately 1.7% of that number (18 groups) consisted of persons with disabilities. Unfortunately, some plants could not accept participants with disabilities because their tours included entering areas that were not barrier-free.

We therefore reviewed the tour courses of the plants that lacked bathrooms for people with disabilities and wheelchair ramps to allow more people to participate in tours.

Dispatching beauty instructors to a senior citizens health services facility

– Kanebo Cosmetics Inc.

Since June 2002, Kanebo Cosmetics has dispatched beauty instructors from the Kanebo Cosmetics Education Center to Camellia, a senior citizens health services facility in Shin-Yokohama, every other month to give skin care and makeup lessons. This program commenced in response to the facility's request. It provides participants, who rarely wear makeup, with a chance to engage in activities they find interesting. Male participants are given lessons in facial massage.

Exchanges with communities and support activities in Penang, Malaysia

– Fatty Chemical (Malaysia) Sdn. Bhd. and others

Four Malaysian subsidiaries of Kao Group, including Fatty Chemical (FCM), conduct various exchanges and support activities each year, based on their recognition that undertaking CSR activities that deepen bonds

with local communities is one of their most important corporate tasks.

In Malaysia, for example, 20,000 to 30,000 children suffer from autism and need assistance to participate in social activities. Representatives of the three companies visit the National Autism Society of Malaysia (NASOM), to donate Kao products and money and directly interact with autistic children living in the facilities.

The companies also donate products and money to institutions for the aged. Again, company representatives visit residents of senior citizens care facilities, acting in accordance with local culture of showing the virtue of “honoring their parents.”

In addition, these three companies send representative to visit facilities for children with disabilities and to an NGO-run dialysis center, providing similar assistance.

TOPICS

Kao received an outstanding performance commendation from the Minister of State for Special Missions, Cabinet Office for our promotion of barrier-free societies

In 1991, Kao was the first in the industry to commercialize a shampoo with notches on the side of the bottle. In addition, Kao provided audio information for people with visual disabilities (*Kao Voice Guide for Everyday Life* CD series) and Braille seals without charge, and produced videos educating barrier-free society in cooperation with the Accessible Design Foundation of Japan that could be borrowed free of charge. These efforts are all part of Kao's contribution to creating a barrier-free society.



Presentation ceremony

Because of these efforts, in 2007, we received an award for barrier-free promotion, the outstanding performance commendation, bestowed by the Minister of State for Special Missions, Cabinet Office in 2007.

Corporate Citizenship Activities in Fiscal 2007 (Kao Group overseas)

Kao Group Companies outside Japan	Activities
Kao Brands Company (USA)	<ul style="list-style-type: none"> Participation as volunteers in local primary school literacy program Donation of Christmas presents to disadvantaged children Donations to the Red Cross campaign
Kao Specialties Americas LLC (USA)	<ul style="list-style-type: none"> Supported the locally held Education Summit Donations for juvenile diabetes research
Molton Brown Ltd. (UK)	<ul style="list-style-type: none"> Donations for cancer research Assistance for disadvantaged children
Kao Chemicals GmbH (Germany)	<ul style="list-style-type: none"> Aid to impoverished people
Kao Professional Salon Services GmbH (Germany)	<ul style="list-style-type: none"> Donations to a NPO providing support to Africa
Kao Corporation S.A. (Spain)	<ul style="list-style-type: none"> Supported the issuance of a community magazine Support for a local children's soccer team
Kao (China) Holding Co., Ltd.	<ul style="list-style-type: none"> Gave classes in experimental chemistry to local elementary school students
Kao (Hong Kong) Ltd.	<ul style="list-style-type: none"> Assistance for disadvantaged children
Kao (Taiwan) Corporation	<ul style="list-style-type: none"> Provision of traffic safety education to local elementary school students
Kao Industrial (Thailand) Co., Ltd. Kao Commercial (Thailand) Co., Ltd.	<ul style="list-style-type: none"> Assistance activities for disadvantaged children
Pilipinas Kao, Inc.	<ul style="list-style-type: none"> Responses to local fire disasters Repair of local elementary school buildings
P.T. Kao Indonesia	<ul style="list-style-type: none"> Aid for victims of flood disasters
P.T. Kao Indonesia Chemicals	<ul style="list-style-type: none"> Cooperation for the local safety system Aid for local victims of flood disasters
Fatty Chemical (Malaysia) Sdn. Bhd. and three other companies	<ul style="list-style-type: none"> Donation of soap to schools, hospitals, and public institutions

List of articles concerning “For Communities”

Items followed by the **Web** mark can be found on the Web site below.
<http://www.kao.co.jp/en/csr/report/08/community/>

Corporate Citizenship Activities

- “Creating an Environment and Developing Human Resources to Nurture the Next Generation”
- Commencement of the Kao Community Museum Program
- Funding citizens' groups in the Tochigi region
- Transmission of the *Kao Voice Guide for Everyday Life* on our Web site **Web**
- Implementation of the Kao Earthwatch Teachers' Fellowship **Web**
- Implementation of the “Million-Person Pink Ribbon Campaign,” one of Kao Group's joint social contribution projects
- Production of a video about life for people with disabilities **Web**
- Activities of the Kao Foundation for Arts and Science **Web**

Disaster Relief Activities

- Unifying the standards concerning donations made by the Kao Group
- Providing assistance to people in the areas afflicted by the Niigata Chuetsu Offshore Earthquake

Exchanges with Communities

- Implementation of plant tours
- Consideration for plant tour participants with disabilities
- Science education support **Web**
- Kao Family Concerts **Web**
- Dispatching beauty instructors to a senior citizens health services facility – Kanebo Cosmetics Inc.
- Exchanges with communities and support activities in Penang, Malaysia – Fatty Chemical (Malaysia) Sdn. Bhd. and others
- Kao received outstanding performance commendation from the Minister of State for Special Missions, Cabinet Office

Environmental Activities

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The scope of the environmental performance data described in this report covers Kao Corporation and its affiliates in Japan. Otherwise, applicable scopes are specified separately.



Data on Environmental Burdens by Plant in Japan and Overseas (Asia, North America and Europe); List of Emissions of Substances Subject to PRTR Law; Compact-Type Products, Refill & Replacement Products and Their Conversion Rates and Certification Status of ISO and Other Standards are available at: <http://www.kao.co.jp/en/CSR/report/08/environment/>

With priority objectives defined, Kao is working to reduce its environmental burdens throughout the entire life cycle of our products.

Kao's Products and Their Environmental Impacts

Aiming to simultaneously expand business and reduce environmental burdens

The bulk of raw materials used in Kao's products are vegetable oils and fats and fossil materials. Because we produce a large volume of products for daily use we work to use resources as efficiently as possible when we design, develop and manufacture products, and pursue technologies that will reduce our use of resources and energy.

In addition, as a company that produces and uses chemical substances, it is necessary for us to recognize the impact of chemicals on the human body and the ecosystem throughout the entire life cycles of our products, as well as throughout our whole business. Through the operation of an established rigorous chemical substance management system and the promotion of development and production of products with less environmental burdens, we aim to concurrently grow our business and reduce environmental impact.

Environmental burden—our primary concerns

1. Greenhouse gas (GHG) emissions

Production and distribution activities emit greenhouse gases such as CO₂. Kao is making efforts to reduce GHG emissions in all processes of its business activities from research and development to sales. Moreover, we are striving for a reduction of GHG emissions at all our facilities, such as offices, training centers, dormitories and company housing.

2. Chemical substances management

We manage chemical substances subject to the PRTR (see page 51) Law and volatile organic compounds (VOC) appropriately, using our own Comprehensive Management System for Chemical Substances and Environmental & Safety Data Management System ("Kanchan" System).

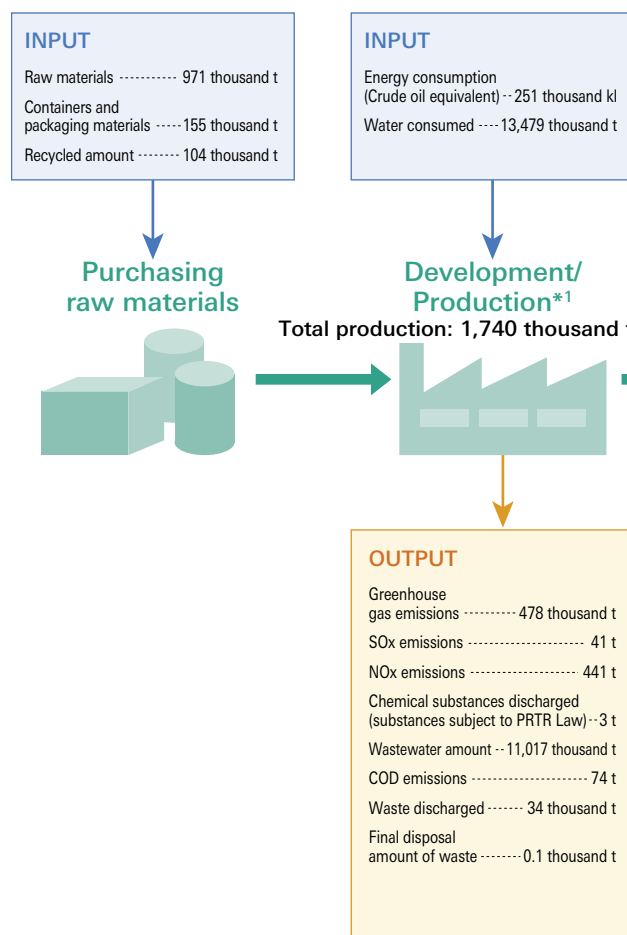
3. Industrial waste

We have reduced the final disposal amount of waste, by utilizing waste materials and by-products generated during production process as resources as effectively as possible. Kao previously defined zero emissions as annual final disposal amounts that were 0.5% or less of generated waste. By fiscal 2006, all our plants in Japan achieved zero emissions.

4. Containers and packaging materials

We continue to promote the 3Rs (Reduce, Reuse and Recycle) for containers and packaging materials.

FY 2007 Business Operations and Environmental Burden

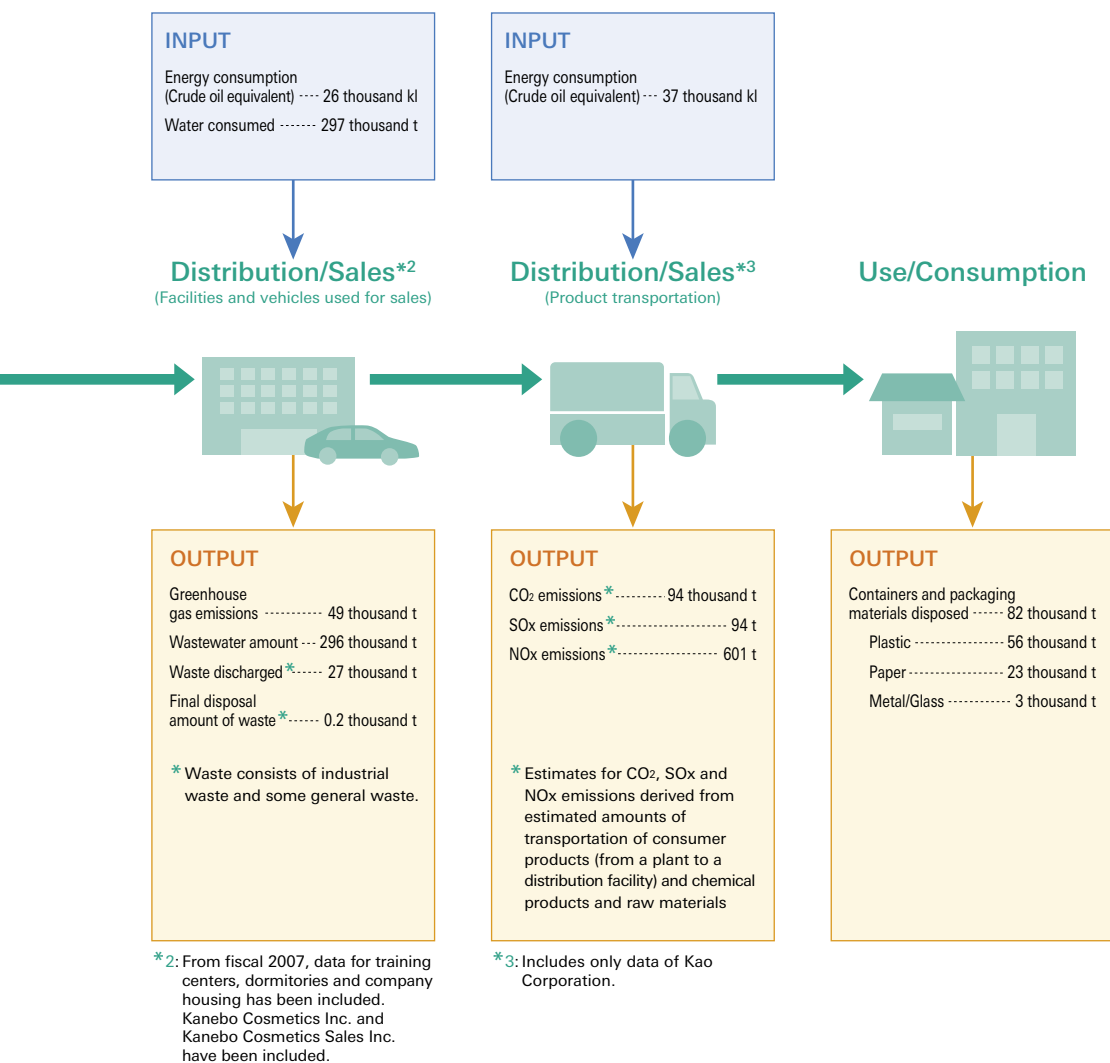


* 1: Energy consumption pertaining only to production was indicated previously. However, for fiscal 2007, energy consumption at administrative and other non-production sites and waste are also included. From fiscal 2007, Kanebo Cosmetics Inc. and Niko Seishi Co., Ltd. have been included.

Meanings/Definitions of Indices used in "Business Operations and Environmental Burden"

INPUT

- **Raw materials:**
The amount of raw materials directly used to manufacture products (excluding containers and packaging materials and fuel)
- **Containers and packaging materials:**
Total amount of cardboard and containers and packaging materials used for products sold
- **Recycled amount:**
Of the waste generated from production and research activities, the amount that is recycled within Kao
- **Energy consumption (Development, production):**
Amount of energy consumed in production activities
 - Includes energy consumption by Kanebo Cosmetics Inc. and Niko Seishi Co., Ltd.
 - The figure for the production processes for fiscal 2006 represented energy consumption for production only. However, that for fiscal 2007 also includes energy consumption at offices and employee welfare facilities that do not directly contribute to production.



- Water consumed: Total amount of water consumed
- Energy consumption (Distribution, sales: facilities and vehicles): Amount of energy consumed by distribution and sales offices, and by vehicles used for sales activities
- The scope of aggregation covers Kao Corporation and its affiliates in Japan.
- Actual energy consumed in sales activities cannot be determined in the case of some leased facilities. For these cases, estimates have been made by calculating consumption based on electricity rates by use of collected data. The data collection rate is 90%.
- Energy consumption (Distribution, sales: product transportation): Amount of energy based on estimates of traffic volumes of consumer (from a plant to a distribution facility) and chemical products

OUTPUT

- Greenhouse gas emissions: Amount (CO₂ equivalent) of greenhouse gas (defined as the six gases specified in the Kyoto Protocol) generated from business activities

- SO_x emissions: Total amount of SO_x emissions from smoke- and soot-emitting facilities
- NO_x emissions: Total amount of NO_x emissions from smoke- and soot-emitting facilities
- Chemical substances discharged: Amount of substances subject to the PRTR Law discharged into the air and water
- Wastewater amount: Total quantity of wastewater discharged from production plants, distribution and sales offices, and other facilities
- COD emissions: Figure calculated by multiplying the amount of wastewater by COD concentrations in the wastewater
- Waste discharged and final disposal amount of waste: The amount of waste from production plants, distribution and sales offices, and other facilities that is sold or entrusted as waste or recyclable materials to waste treatment companies, and the amount of waste put for final disposal
- Containers and packaging materials disposed: The total amount of containers and packaging used for products sold (excluding cardboard)

Kao is addressing five priority objectives, such as global warming prevention, to achieve our environmental activity targets.

Fiscal 2007 Results and Policies for the Future

Numerical targets met for all objectives

Kao achieved its numerical targets in all priority objectives in fiscal 2007. GHG emissions, in particular, were 91% of the fiscal 1990 level.

Building on this success, Kao will set new targets and take new measures in the areas in which Kao failed

to achieve satisfactory results. In terms of global warming prevention, we will promote activities to this end, in conjunction with energy conservation activities based on the national government's plan to achieve the Kyoto Protocol targets, and will encourage fuel conversion thereby achieving our new numerical targets.

Meanwhile, to reduce waste materials, we are aiming to achieve a newly defined zero emissions target: To achieve a final disposal rate of 0.2% or less.

Environmental Activity Targets and Results

Priority objective	Relevant division	FY 2007 targets	FY 2007 results ^{*6}	FY 2008 policies and target	FY 2010 targets
Energy conservation	Production & Engineering Division	<ul style="list-style-type: none"> Reduce energy consumption during production activities to 75 in basic unit index^{*1} Steadily implement energy conservation activities 	<ul style="list-style-type: none"> 64 Target achieved through improvements made to operating methods and enhancement of facility and equipment efficiencies (185 measures in total) 	<ul style="list-style-type: none"> Maintain 74 in basic unit index Steadily implement energy conservation activities 	Achieve 72 in basic unit index
	Groupwide (excluding production divisions)	—	—	Reduce energy consumption by 1% from FY 2007	Reduce energy consumption by 4% from FY 2006
Global warming prevention	Production & Engineering Division	<ul style="list-style-type: none"> Reduce greenhouse gas emissions^{*2} to 68 in basic unit index Promote further energy conservation and fuel conversion 	<ul style="list-style-type: none"> 60 Target achieved by promoting energy conservation as above and implementing fuel conversion at Sakata Plant 	<ul style="list-style-type: none"> Maintain GHG emissions in basic unit index at 67 Promote further energy conservation and fuel conversion 	Reduce GHG emissions in basic unit index to 65
	Groupwide (excluding production divisions)	—	—	Reduce GHG emissions by 1% from FY 2007	Reduce GHG emission by 4% from FY 2006
Waste material reduction	Production & Engineering Division	<ul style="list-style-type: none"> Maintain a final disposal rate of all plants of 0.5% or less Reduce waste generation by 0.5% per unit production from FY 2006 	<ul style="list-style-type: none"> Achieved Achieved 	<ul style="list-style-type: none"> All plants achieve a final disposal rate of 0.2% or less. Reduce waste generation by 0.5% per unit production compared to FY 2007 	<ul style="list-style-type: none"> Reduce total of final disposal amounts of all plants to 150 tons or less; and reduce the total final disposal rate of all plants to 0.1% or less Reduce waste generation by 0.5% per unit production compared to the previous year
Reduction of chemical substances discharged Chemical substances subject to the PRTR Law	Production & Engineering Division	Maintain emission of each chemical from respective plants at 1 ton or less	Achieved	Maintain emission of each chemical from respective plants at 1 ton or less	Maintain emission of each chemical from respective plants at 1 ton or less
VOC ^{*3} substances		Maintain emission of each chemical from respective plants at 5 tons or less	Achieved	Maintain emission of each chemical from respective plants at 5 tons or less	Reduce emission of each chemical from respective plants to 1 ton or less
CSR procurement ^{*4}	Groupwide (excluding production divisions)	Maintain the ratio at 90% or higher	Achieved (Green Purchase Ratio: 99.1%)	98% or higher	100%
Reduction of transportation energy	Production & Engineering, Logistics and Chemical divisions	—	—	Reduce transportation energy in basic unit index ^{*5} by 1% from FY 2007	Reduce transportation energy consumption in basic unit index by 4% from FY 2006

^{*1} **Basic unit index:** Amount per unit value-added production output. Index represented with the 1990 value defined as 100. 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} **Greenhouse gas emissions:** CO₂ equivalent emissions of six greenhouse gases specified in the Kyoto Protocol.

^{*3} **VOC:** Volatile organic compounds. Specifically, Kao defines the 100 substances listed in the Notice of the Director-General, Environmental Management Bureau, Ministry of the Environment (June 17, 2005) as VOC.

^{*4} **CSR procurement/Green Purchase Ratio:** Giving preference to suppliers that consider their responsibilities to the environment and society, and preferentially selecting products with lower environmental burdens (green products), when purchasing goods necessary for production activities. For CSR procurement, suppliers are assigned the following ranks in environmental protection assessment: A (Outstanding use of an environmental management system (EMS)), A1 (Planning to obtain ISO 14001 or some other standard certification), B (Uses an EMS) and C (Needs to build an EMS). The Green Procurement Ratio is the ratio of supplier factories that have attained a ranking of B or better in an environmental protection assessment. Environmental protection assessment methods are separately specified in the CSR Procurement Guidelines. Although we set a numerical target for our green purchasing activity for fiscal 2007, we revised the activity in 2007 so as not to include a numerical target Green Purchase Ratio because of the introduction of eco-products not meeting the used pulp content and other standards. We will continue to promote green purchasing activities.

^{*5} **Transportation energy in basic unit index:** Transportation energy per unit of volume of sales.

^{*6} **FY 2007 results:** Includes results of Kanebo Cosmetics Inc., excluding its CSR procurement and transportation energy initiatives.

Kao takes comprehensive approaches to global warming prevention by employing various methodologies in R&D and product development, as well as at our offices.

To help prevent global warming, Kao's R&D Division has positioned the reduction of environmental burden as a key theme for fundamental technology research. Meanwhile, environmentally conscious design and safety are confirmed in the product development phase. In the production process, Kao is undertaking a variety of energy conservation activities, including a switch of fuel to natural gas and the improvement of boiler combustion efficiency. At our offices, we try to measure floor-by-floor electricity consumption to promote CO₂ emissions reduction efforts. In logistics, we promote eco-driving by introducing drive recorders into all transport vehicles.

Efforts for Global Warming Prevention in Business Activities

Development of materials and technologies that have less impact on the environment

The R&D Division at Kao recognizes the development of environmentally harmonious technologies and materials as an important theme of its fundamental research and is engaged in the development of materials, manufacturing technologies, molding and processing technologies and containers and packaging with less environmental burdens. In the field of material development, the division is promoting the development of materials that are environmentally friendly and safe and that utilize biomass materials. Technologies and materials resulting from these research activities are used in the development of products. In product development, while

maintaining and enhancing the functions of products, we subject them to environmental assessments in terms of resource and energy conservation and other environmentally friendly features and safety from the viewpoints of product life cycle assessment and chemical substance risk assessment.

In fiscal 2007, Kao succeeded in developing a toner binder capable of fixing at a lower temperature and lighter and thinner disposable diapers that require less energy consumption during distribution (see page 11).

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

Kao is engaged in a variety of energy conservation activities in its production processes.

In fiscal 2007, Wakayama Plant switched its process of removing the odorous gas from a conventional combustion method using a boiler to a new method using a regenerative thermal oxidizer. This improved the combustion efficiency of boilers. Accompanied by a review of the operation of the plant's hot-air dryer, the change of combustion system resulted in a reduction of total energy consumption of 4,700 kl from the previous year in crude oil equivalent. In energy basic unit index, this represents a 3.5% improvement from the previous year.

Reducing greenhouse gas emissions through fuel conversion

To reduce greenhouse gas emissions, we limited private power generation using heavy fuel oil, substituting it with electricity with lower CO₂ emissions that we purchased from outside sources. This resulted in a reduction of 20,944 tons of CO₂ emissions from fiscal 2004.

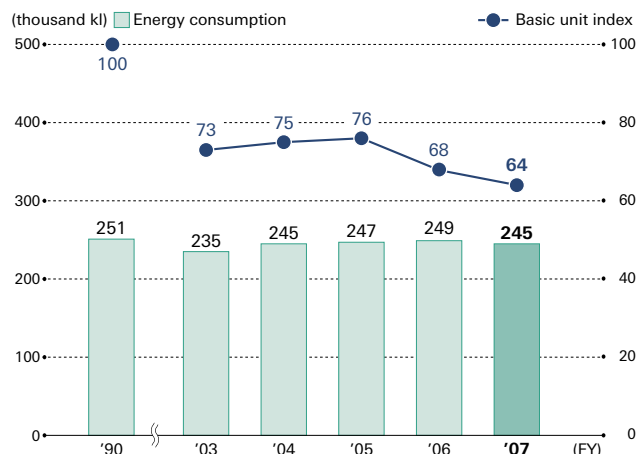
TOPICS

Development in fiscal 2007 of technologies and products to reduce environmental burden

For a functional material glyceryl ether manufacturing process, Kao developed a reaction process based on subcritical hydrothermal reaction technologies, which generates less waste and can substantially reduce the amount of water used. This technology won the 4th Green Sustainable Chemistry (GSC) Poster Awards.

Poly(lactic acid) (PLA) derived from biomass is a biodegradable bioplastic that decomposes into water and carbon dioxide. Its disadvantages, however, were that the process took a long molding time and the products were less transparent. Kao has overcome these problems by utilizing its own technology for controlling nano-sized PLA crystals. Through the use of this technology, Kao has succeeded in developing a modified type of PLA with excellent characteristics. It can be extruded into sheets and manufactured under the same conditions as polypropylene, with equivalent or better transparency and physical properties.

Changes in Energy Consumption of Production Activities



* Figures are sums of energy used for production, and energy consumption and waste-to-energy at offices and by research activities that do not contribute directly to production. From fiscal 2006, Kanebo Cosmetics Inc. has been included. Revision was made on the conversion value of city gas consumption, and figures back to 1990 have been revised accordingly.

In fiscal 2007, Kao promoted fuel conversion to natural gas and made consistent and steady efforts at production sites in view of the national government's numerical target to reduce greenhouse gas emissions by 6% from 1990 during the first commitment period under the Kyoto Protocol, from 2008 to 2012. As a result, greenhouse gas emissions were cut by 8,194 tons, which in the basic unit index constitutes a 3.2% improvement from fiscal 2006. Kao will continue to examine greenhouse gas emissions trading.

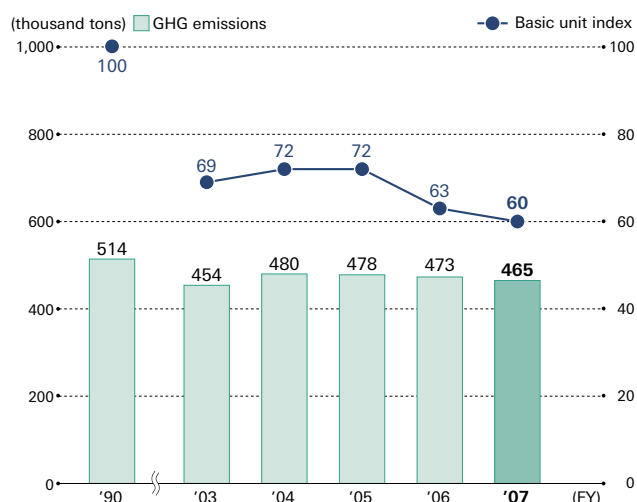
Participation in the "Team Minus 6%" campaign

Since 2005, Kao has been participating in "Team Minus 6%," a national project to prevent global warming. From the combined effects of the campaign, we reduced electricity consumption at our offices in fiscal 2007 by 1,295,000 kWh, or approximately 7.1%, from fiscal 2004, before the project commenced. This is equivalent to a reduction of 345 kl of crude oil, or 539 tons of CO₂.

By the practice of "Cool Biz," we saved 800,000 kWh, or approximately 8.2%, of electricity, from fiscal 2004, which is equivalent to a reduction of 217 kl of crude oil, or 338 tons of CO₂. With "Warm Biz," we reduced 495,000 kWh, or approximately 5.9%, of electricity, from fiscal 2004. This is equivalent to a reduction of 127 kl of crude oil, or 201 tons of CO₂.

Furthermore, at our Sumida Complex, electricity consumption is measured by floor and reported throughout the complex to boost employees' sense of participation in the campaign.

Changes in Greenhouse Gas Emissions



* Emissions are calculated based on the Calculation and Reporting Manual for Greenhouse Gas Emissions Ver. 2.2. From fiscal 2006, data for Kanebo Cosmetics Inc. have been incorporated. The basis for calculating city gas consumption was revised, and accordingly, relevant figures have been corrected as far back as 1990.

Providing eco-driving education

To reduce environmental burden in distribution, Kao has established and is operating efficient distribution systems. We are encouraging modal shift from truck transportation to rail and ship transportation, which have less impact on the environment. We are also keeping a high truck loading ratio by loading other companies' products together with ours, which reduces both energy consumption and CO₂ emission during transportation.

In fiscal 2007, Kao introduced drive recorders to all small-sized vehicles owned by Kao Logistics Co., Ltd. Drive recorders record visual images and driving data during, before and after an accident or sudden gain or reduction in speed that may lead to an accident. Using the recorded data, we provided our staff with eco-driving education. As a result, a 5% year-on-year improvement in fuel efficiency was achieved and safe driving has been enhanced.

In accordance with the revised Energy Conservation Law enforced in fiscal 2007, Kao submitted calculation results and plans to the relevant government office, based on our preprepared calculation system.

Transportation Mode and Exhaust Gas Emissions (FY 2007)

Category	Transportation mode	Transportation Quantity Ratio (%)	CO ₂ emissions (t)	SO _x emissions (t)	NO _x emissions (t)
Consumer products	Truck	61	57,131	9	399
	Rail	15	2,152	1	1
	Ship	24	6,429	71	9
	Total	100	65,711	81	409
Chemical products	Truck	78	14,384	2	100
	Rail	11	281	0	0
	Ship	11	481	5	1
	Total	100	15,146	8	101
Others (raw materials, waste, etc.)	Truck	80	13,010	2	91
	Rail	15	355	0	0
	Ship	5	212	2	0
	Aircraft	0	17	0	0
	Total	100	13,594	5	91

- Transportation Quantity Ratio = Weight of goods transported x distance
- CO₂ emissions were calculated using the emission coefficients defined by the Ministerial Ordinance based on the Law Concerning the Promotion of the Measures to Cope with Global Warming, emission coefficients specified in the Calculation and Reporting Manual for Greenhouse Gas Emissions (Ministry of the Environment, Ministry of Economy, Trade and Industry).
- SO_x emissions were calculated using emission coefficients based on regulatory values and standards for individual types of fuels, and LCI* data for electricity.
- NO_x emissions were calculated using Eco Program coefficients and LCI* data for electricity.

* LCI: Life Cycle Inventory. Lists of environmental burden data, such as on the amount of resources needed for manufacturing products per unit and on atmospheric emissions.

Kao endeavors to reduce and manage the emissions of chemical substances in accordance with its own chemical substance management system and CSR-oriented procurement standards.

To manage and reduce chemical substance emissions, Kao makes full use of its Comprehensive Management System for Chemical Substances, which integrates our chemical substance regulatory information database, MSDS Management System and export management support tools. In 2007, we upgraded the Green Procurement Standards to CSR Procurement Standards. Based on the new standards, we are investigating and evaluating the environmental and social performance of major suppliers of raw materials, in cooperation with our group companies in and outside Japan.

Management of Chemical Substances

Enforcing integrated chemical substance management from raw materials to products

Kao is implementing an integrated chemical substance management system, using our own Comprehensive Management System for Chemical Substances. Under this system, we classify chemical substances used for our products into four ranked categories: prohibited chemical substances, restricted use chemical substances, chemical substances requiring careful handling and other substances.

Promoting procurement of raw materials with less environmental burdens

Kao revised its Green Procurement Standards formulated in April 2004 and upgraded to the CSR Procurement Standards in January 2007. These standards are used to investigate and evaluate major raw material suppliers' environmental performance (environmental management system (EMS), etc.) and social performance (compliance with laws and regulations and corporate ethics, elimination of discrimination and illegal labor practices).

In fiscal 2007, the number of factories we investigated regarding environmental performance increased by 211 to 751 factories. Our investigation revealed that 99.1% of the factories met the standards. We will continue to request the establishment of an EMS or improvement of operation of those companies and factories that failed to meet the standards.

Moreover, in October 2007, Kao began evaluating suppliers of our 12 overseas group companies, from the viewpoint of global procurement.

Reducing emissions of chemical substances subject to the PRTR* Law

Kao achieved its fiscal 2007 target of maintaining emissions of each chemical substance from respective factories at 1 ton or less. Total discharges into the atmosphere and water were 3 tons.

* PRTR

Pollutant Release and Transfer Register. The PRTR Law is intended "to promote voluntary improvement of the management of chemical substances by business operators and to prevent any impediments to the preservation of the environment."

Reducing VOC emissions

The fiscal 2007 survey on volatile organic compounds (VOC) emissions revealed that none of our facilities were subject to regulatory control. Yet, the total amount of VOC released to the atmosphere was 13 tons, according to the investigation conducted independently by Kao on VOC emissions of the 100 substances designated by Kao. We achieved our target of reducing emissions of each substance from respective factories to 5 tons or less.

We will explore measures to limit the use of chemicals and VOC emissions to enable us to maintain the emissions of each substance from respective factories at 5 tons or less in fiscal 2008 and to reduce annual emissions of each substance from respective factories to 1 ton or less in fiscal 2010.

* VOC Volatile Organic Compounds

Proper storage and disposal of PCB

Polychlorinated biphenyl (PCB) previously used in Kao is currently stored securely at Wakayama and Tokyo Plants, awaiting disposal. In 2005, we commissioned the Japan Environmental Safety Corporation to carry out this disposal.

Preparation of MSDS and carrying of Yellow Cards

Kao provides customers with an MSDS*¹ for each chemical product we sell at the time of sale. As a global operator, Kao has established a multilingual MSDS Management System that can be viewed or printed via the Internet at any distribution facility.

When chemicals are transported by tank truck, we provide the carrier with documentation containing information on how to respond in an emergency and require drivers to carry Yellow Cards*². When a small volume of more than one type of chemical substance is loaded, a Container Yellow Card containing emergency response information is affixed to each container.

* 1 MSDS

Material Safety Data Sheet. An MSDS lists the names of substances included in the product, toxicity information, handling precautions and other information necessary for safe and appropriate handling of the subject chemical product.

* 2 Yellow Card

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

Building upon the success in achieving zero emissions at all its plants in two consecutive years, Kao is defining “zero emissions” more strictly.

Kao achieved zero emissions at all domestic plants in fiscal 2006. In fiscal 2007, we reinforced our ongoing efforts and reduced the total final disposal amount of waste to 45% of the previous year's level. From fiscal 2008, we will introduce a stricter definition of zero emissions. We also work to promote the 3Rs for general waste, separation and collection of recyclable garbage and recycling at our offices and sites of our distribution subsidiary.

Zero Emission Activities

Setting a stricter definition of zero emissions

In an effort to reduce the amount of waste generated from production activities, Kao is reducing the amount of water used to wash tanks, optimizing the size of mixing tanks to reduce both waste fluids and the amount of water used for cleaning, and refining production plans. The waste materials that are generated despite these efforts are either reused within our plants or sent to waste processors for recycling.

In fiscal 2007, each plant conducted activities to improve yield and loss rates and reduce waste fluid for incineration. These efforts resulted in less waste being generated. The total of final disposal amounts of waste discharged from all Kao's plants was cut by 55% of the previous year to 128 tons. In aggregate, the final disposal rate was 0.09%.

From fiscal 2008, we introduced a stricter definition of zero emissions: To reduce the final disposal amount from 0.5% to 0.2% of the total amount of waste generated.

Promoting recycling activities at nonproduction office sites

Since July 2006, our Head Office in Kayabacho has maintained its final disposal amount of waste at zero as a result of reviewing contractors disposing of general office waste, based on a policy of ensuring that no residue ends up in landfill.

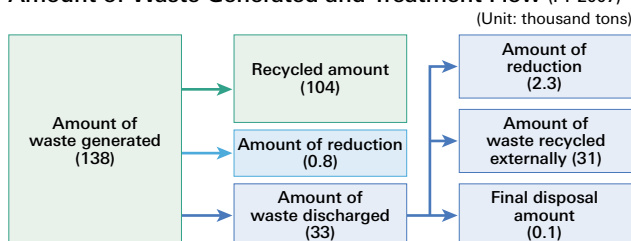
Kao Logistics Co., Ltd. is actively promoting the recycling of plastics and cardboard used in the transport and delivery of products. This includes unusable collapsible plastic containers, which are separated and collected at all distribution hubs, and sent to waste plastic recycling companies.

Introducing “Waste and Recycling Governance System”

Kao has developed its “Waste and Recycling Governance System” for the integrated management of agreements with outside contractors, operation of industrial waste manifests and data on waste volume. The system has been in operation since October 2006 at the nine plants of Kao Corporation and its affiliates. In April 2007, four of our non-production divisions and four affiliates also started to operate this system.

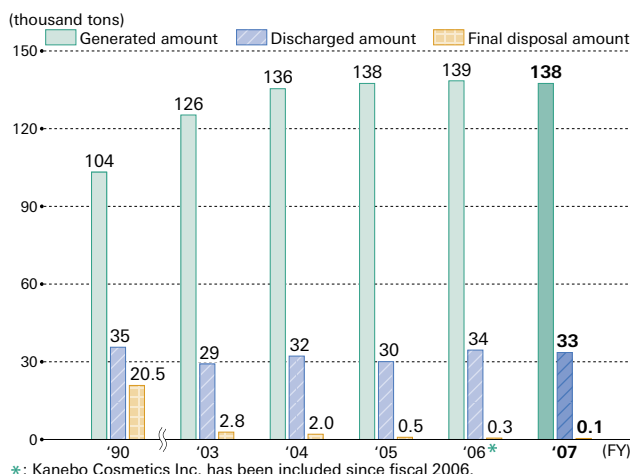
By allowing relevant parties to share information on waste disposal contractors and processing agreements, the system helps boost transparency and reduce the risks of illegal dumping and inappropriate processing by contracted waste processors. Additionally, centralized management of manifests will promote appropriate processing and enhance traceability.

Amount of Waste Generated and Treatment Flow (FY 2007)



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

Changes in Waste Amounts



Kao addresses the 3Rs through the development of refill products and containers that can satisfy functional requirements using minimal resources.

Kao is engaged in research for containers and packaging materials that can meet the requirements of their roles and functions with a minimum use of resources, while at the same time is making strenuous 3R (reduce, reuse and recycle) efforts for container and packaging materials. To reduce container and packaging materials, we are actively developing compact-type products and refill and replacement products. In fiscal 2007, we released a refill version of our *Asience shampoo* product, etc.

Effective Utilization of Resources

Aggressive promotion of 3Rs

Containers and packaging materials are a necessary component of the product until their contents are used up and play important roles such as providing information and instructions, protecting the contents and preserving the quality of products during transportation.

While directing research and development toward creating containers and packaging materials that fulfill these roles and functions using minimal resources, Kao is actively pursuing 3R activities aimed at recycling and reusing container and packaging materials.

- 1. Reduce:** Concentration of contents and compacting of products
- 2. Reuse:** Reuse containers and packaging materials using refill and replacement products
- 3. Recycle:** Greater use of recycled materials



Reduce

By enhancing product performance and compacting products, Kao is reducing the amount of product needed for each use and thereby reducing the amounts of materials and energy consumed and waste generated.



Reuse

Product refills make it possible to use shampoo and body cleanser bottles over and over, thereby helping to conserve resources and reduce waste.

Reduce and Reuse

Developing compact-type products and refill and replacement products

Kao is focusing its efforts on the reduction of container and packaging materials. In fiscal 2007, upon the launch of *Success Medicated Shampoo with Double Conditioning Effects*, we also introduced a refill for it. We have also released refills for *Asience shampoo* and *Asience conditioner*.

Kao uses advanced container design technology to create tough containers that protect contents from impacts and preserve their quality, while also reducing our plastic usage. In so doing, we are continuing to reduce the amount of plastic we use for containers.

In fiscal 2007, we cut the amount of plastic we use in the bottle for softener *Humming Extra-large*, those for 4.5-liter professional-use products and the caps for *Bioré UV for Smooth Skin* containers. We also reduced the thickness of labels used on the *Healthya* Tea drink and *Econa Healthy Cooking Oil*. In total, Kao achieved an annual reduction in plastic consumption of 665 tons. This constitutes a 1,142 kl reduction in crude oil equivalent.

Regarding the cardboard we use for transporting products and for gift packaging, we have cut weight per unit area without compromising functionality, such as strength. As a result, we reduced our annual cardboard usage by 1,240 tons in total.

Despite our efforts to reduce container and packaging materials through these 3R activities, our usage of container and packaging materials in fiscal 2007 increased by 2,700 tons from the previous year. This was due to the launch of new products and increased sales of existing products. However, Kao will sustain our efforts to reduce consumption.

Changes in Container and Packaging Materials Used

(Unit: tons)

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Plastic	46,800	49,000	49,200	55,700	55,700
Paper	26,000	25,800	26,100	25,600	22,500
Cardboard	60,300	64,300	65,600	67,700	73,700
Others	3,300	3,600	3,800	3,600	3,400
Total	136,400	142,700	144,700	152,600	155,300

* The scope of data covers only Kao Corporation.

Kao is staging a variety of environmental conservation activities, including effective utilization of water resources and taking measures to preserve biodiversity and other.

In addition to efforts mentioned thus far, Kao has continuously endeavored to effectively utilize water resources, reduce the impacts of post-consumption effluent and take various measures related to soil contamination and biodiversity.

Effective Utilization of Water Resources

Reusing water used for cleansing

Each of Kao's plants uses water as a product ingredient, and to clean and cool equipment and for human needs. To use water efficiently, water that has been used for cleaning or other purposes is treated and reused at some plants.

However, water consumption and the amount of effluent increased by 141,000 tons and 253,000 tons, respectively, from the previous year. This was due to an increase in production and in the amount of water used to clean equipment because of growing demand for liquid detergents and a consequent shift from powder to liquid detergents.

Wastewater Control

Measures to deal with unintentional non-compliance with wastewater standards

In April 2007, glycerin, an ingredient used in cosmetics, became mixed into wastewater system at Wakayama Plant. Because operations at that time were unscheduled, it took time to identify the cause of the contamination. As a result, the COD value slightly

exceeded the regulatory standard value. We immediately reported the incident to relevant authorities, after having rectified the situation by improving the plant's wastewater system and reinforcing its wastewater control system to prevent recurrence.

At Kawasaki Plant in October 2007, due to the deterioration of an aged valve in the raw material tank for detergent base, there was a leak of urea and the total nitrogen concentration in the wastewater exceeded the regulatory standard value. To address the situation, we refurbished the valve and reexamined the procedures for when extraordinary values are detected in wastewater.

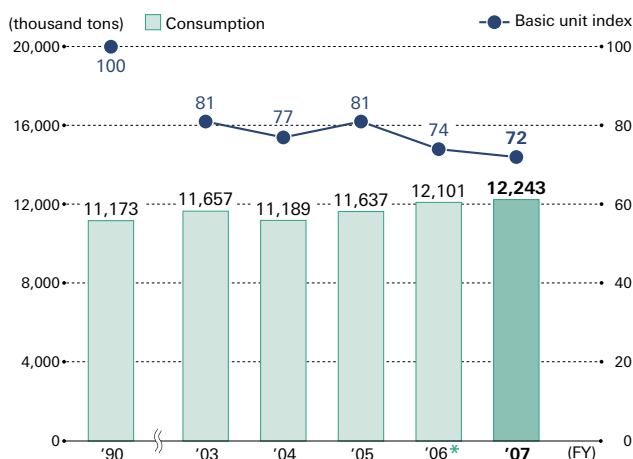
Aiming to reduce the impact of wastewater after product usage

Domestic wastewater discharged after the use of laundry detergent and other consumer products is decomposed either at controlled wastewater treatment facilities or by microorganisms in rivers, before being returned to the natural system of rivers, lakes, oceans, etc. Wastewater treatment after the consumption of Kao's consumer products thus depends both on the ecological and artificial treatment and circulation systems.

To ensure that Kao's products don't impose excessive burdens on these purification and circulation systems, Kao defines its basic policy for environmentally conscious designs as "promoting the lowering of environmental burdens throughout the entire lifecycle of products." Based on this policy, we endeavor to use highly biodegradable raw materials that have less impact on the ecosystem.

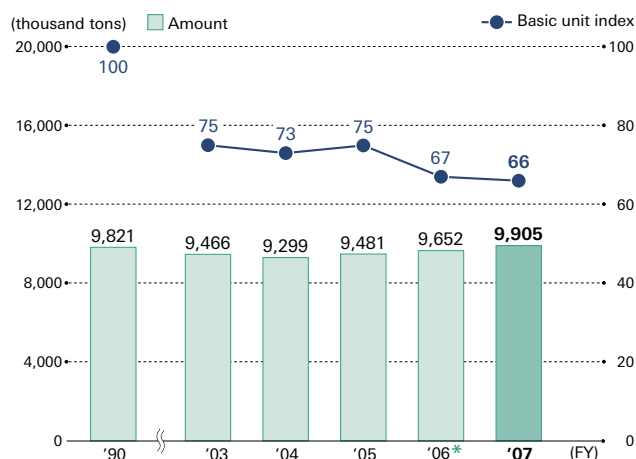
At the same time, addressing the negative effects our products can have on the natural environment after use,

Changes in Water Consumed



* Kanebo Cosmetics Inc. has been included since fiscal 2006.

Changes in Wastewater Amount



Kao is conducting environmental monitoring surveys jointly with other member companies of the Japan Soap and Detergent Association (JSDA) as activities of the association's Environmental Safety Technical Subcommittee of the Environmental Committee. Specifically, we measure surfactant concentrations for four substances subject to the PRTR Law, including cleaning agent LAS, in major four rivers flowing in urban areas, such as the Tama River, four times a year, to assess the environmental risks the surfactants impose on the ecological system.

The fiscal 2006 investigations revealed that concentrations of surfactants in the ecosystem were lower than allowable concentrations and, as had been the case in previous years, they were unlikely to have negative impacts on the ecosystem (according to the FY 2007 Environmental Year Book Vol. 32, JSDA).

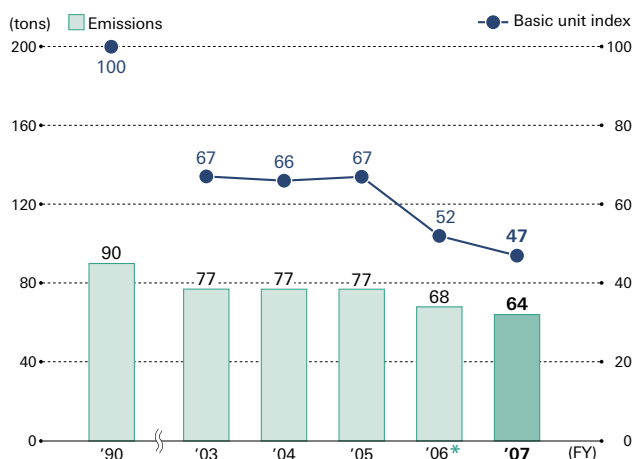
Measures for Soil Contamination

Soil contamination investigations and measurement conducted

In fiscal 2007, Kao conducted soil contamination investigations and measurements at its Wakayama Plant, where the hazardous substance dichloromethane is used. It was confirmed that the level of dichloromethane in the soil was below the standard value.

Also at the Wakayama, Sakata and Tochigi plant sites, levels of substances regulated by environmental standards in groundwater were measured, in light of the history of the use of chemical substances at these locations. It was confirmed that all detected substances were below limit values.

Changes in COD Emissions



Measures for Biodiversity

Aiming for biodiversity preservation

Biodiversity is an integral feature of the ecological system that supports human life. It plays an important role in maintaining our day-to-day existence as well as a sustainable natural environment. However, various human activities have burdened the environment, resulting in a decrease of biodiversity. Against this backdrop, Kao is implementing a wide range of activities to contribute to the preservation of biodiversity.

Affiliation with RSPO

Palm oil is an important raw material for Kao. In fiscal 2006, Kao made a formal affiliation with the international non-profit organization Roundtable on Sustainable Palm Oil (RSPO). RSPO is an international NGO addressing social and environmental problems related to the production of palm oil, such as destruction of ecological systems caused by logging tropical rainforests and harsh working conditions at plantations. These problems have come to the fore as production of palm oil—recently drawing attention as a sustainable recycling-oriented resource—expands. Kao is promoting sustainable procurement of raw materials with consideration of the environment impact from a global perspective.

Participation in JBIB

Since fiscal 2008, Kao has participated in the Japan Business Initiative for Conservation and Sustainable Use of Biodiversity (JBIB), inaugurated by 14 Japanese companies. Through JBIB, Kao aims to implement joint research projects on the conservation of biodiversity from an international viewpoint and communicate the research results to stakeholders, thus promoting the conservation of biodiversity.

Kao acquires stakeholder feedback on its environmental activities through various methods such as its Web site, publications and events.

Kao consistently pursues effective communication based on a scientific approach, fair and timely disclosure of information and sincere dialogue. Regarding our activities and performance, we provide information via our Web site, CSR reports and site reports. We place great importance on dialogue with stakeholders, as is demonstrated by our efforts to create opportunities for discussion during plant tours and consumer consulting. We are incorporating stakeholder opinions and requests into our day-to-day environmental conservation activities.

Various Forms of Communication on Environmental Topics

Publication of site reports on environmental and safety activities of each plant

Kao views site reports as a tool for disseminating information about the environmental and safety activities of each plant and as a way of encouraging a variety of stakeholders to express their opinions.



Environmental and safety site reports
(Tochigi and Wakayama Plants)

In fiscal 2007, site reports were issued by eight domestic plants. The Tokyo Plant, located at our Sumida Complex and adjacent to a residential area, distributed its site reports to local residents.

Participation in a social experimental project on purchasing behaviors for products with reduced packaging materials

Gomi Japan, an NPO founded by Kobe University students and members of the business community, is conducting a social experiment for three months from May 2008. Headed by Professor Masanobu Ishikawa of the Graduate School of Economics at Kobe University, the NPO aims to encourage cooperation between academia and industry to reduce waste. The project aims to reduce garbage by calling on consumers to purchase products with less packaging materials.

The social project focuses on daily consumables, such as food and shampoo. Approximately 800 products whose packaging materials are resource-saving compared to regular products are certified as “*Heraso* products” (products with reduced packaging materials) and affixed with a recommendation mark. Consumers are encouraged to do “*Heraso* shopping”—to buy products carrying the

mark—at four stores, such as co-ops, in Kobe City. One of the objectives of the project is to gather data on consumers purchasing activities and awareness surrounding reduced packaging.

In support of the project, which is consistent with our commitment to the 3Rs for containers and packaging materials, Kao is taking part in the experiment. In addition to refill-type shampoos and many other Kao products that were certified as “*Heraso* products,” Kao has designed two trial products with simplified packaging materials especially for the project.

Participation in the 4th Eco-Products International Fair (Hanoi, Vietnam)

Kao exhibited its products at the 4th Eco-Products International Fair held in Hanoi, Vietnam from March 1 to 4, 2007. Through our booth display, we informed visitors of our environmental approach, our 3R activities for containers and packaging materials and other activities, and communicated our genuine consideration of our environmental impacts. Visitors were keen to learn about our pouch pack refill products and use of recycled materials.



Kao's exhibition booth

Lists of items disclosed related to environmental communication

Items followed by the **Web** mark can be found on the Web site below.

<http://www.kao.co.jp/en/csr/report/08/environment/comm/>

Various Forms of Communication on Environmental Topics

- Publication of site reports on environmental and safety activities of each plant
- Meeting held for exchange on environment, safety and disaster prevention issues **Web**
- Participation in the 4th Eco-Products International Fair (Hanoi, Vietnam)
- Offering environmental education **Web**
- Lecture on environmental activities held at Sumida Complex **Web**
- Sakata Plant to participate in Sakata Port cleanup campaign **Web**
- Participation in GPN 5 million people green purchase campaign **Web**
- Participation in a social experimental project on purchasing behaviors for products with reduced packaging materials

Method of Aggregation for Fiscal 2007

- The aggregation methods for fiscal 2007 comply with the Ministry of the Environment's "Environmental Accounting Guidelines 2005." Kao also refers to the "Environmental Accounting Guidelines for Chemical Companies (November 2003)" issued by the Japan Chemical Industry Association.
- The accounting scope covers Kao Corporation and its six domestic subsidiaries (Kanebo Cosmetics Inc., Kao Customer Marketing Co., Ltd., Ehime Sanitary Products Co., Ltd., Kao-Quaker Co., Ltd., Kao Professional Service Co., Ltd. and Goldwell Japan Co., Ltd.).
- The accounting period runs from April 1, 2007 to March 31, 2008.

Environmental Conservation Cost

(Categories Corresponding to Business Activities) (Unit: million yen)

Categories	Key Activity and the Outcome	Investment	Cost*1
(1) Business Area Costs		1,360	4,028
Breakdown			
1) Pollution Prevention Cost	Air and water pollution prevention	458	1,808
2) Global Environmental Conservation	Energy conservation	375	212
3) Resource Circulation Cost	Resource saving, waste treatment and disposal	527	2,008
(2) Upstream/Downstream Cost	Plant and equipment for environmentally-friendly products, containers, and packaging recycling	32	2,717
(3) Administration Cost	Acquisition and maintenance of ISO certification, environmental publicity, tree planting within work sites	15	919
(4) R&D Cost	Environmentally-friendly R&D	201	2,958
(5) Social Activity Cost	Natural environmental conservation and tree planting activities outside work sites, donations	0	47
(6) Environmental Remediation Cost		—	0
Total		1,608	10,669

*1: Expense amounts include depreciation costs.

Environmental Conservation Benefits

(Physical Quantity Benefits)

Categories	Environmental Performance Indicators (units)	FY 2006	FY 2007	Change*2
Related to Resource Input into Business Activities	Energy consumption of production activity (crude oil equivalent, kl)	249,456	244,775	▲4,681
	Water consumed (1,000 tons)	12,101	12,243	142
	Greenhouse gas emissions (CO ₂ equivalent: 1,000 t)	473	465	▲8
	SOx emissions (t)	35	41	6
Related to Waste or Environmental Impact Originating from Business Activities	NOx emissions (t)	458	432	▲26
	Wastewater amount (1,000 t)	9,652	9,905	253
	COD emissions (t)	68	64	▲4
	Waste discharged (1,000 t)	34	33	▲1
	Final disposal amount of waste (1,000 t)	0.3	0.1	▲0.2
	Emissions of chemical substances subject to PRTR Law to the air (t)	3	3	0

*2: The symbol (▲) represents a decrease.

Economic Benefit Associated with Environmental Conservation Activities

(Unit: million yen)

Details of Benefit	Amount*3
Revenue from sales of valuable residues	
Sales value of valuable resources and fixed assets	292
Cost reduction	
Reduction in costs through energy conservation	284
Reductions in cost through resource saving	2,408
Reduction in operation costs (maintenance costs, etc., of environmentally-friendly equipment)	370
Total	3,354

*3: The amount of cost reduction represents an annual reduction for those items, generated in the respective fiscal year.

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

Environmental Conservation Cost

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

(Unit: million yen)

Categories	Description of Measures	Investment	Cost
(1) Cost related to global warming measures	Energy conservation	337	201
(2) Cost related to ozone layer protection measures		38	12
(3) Cost related to air quality conservation measures	Prevention of air pollution, prevention of dust pollution, malodor prevention	55	574
(4) Cost related to noise and vibration measures	Noise prevention	0	10
(5) Cost related to environmental conservation measures for the aquatic, ground, and geologic environments	Prevention of water pollution	403	1,228
(6) Cost related to waste and recycling measures	Resource saving, industrial waste volume reduction, recycling	559	4,711
(7) Cost related to measures for reducing chemical risk and emissions	R&D on products and production	201	2,958
(8) Cost related to natural environmental conservation	Natural environmental conservation and tree planting activities outside plants, donations	0	47
(9) Other costs	Acquisition and maintenance of ISO certification, environmental publicity, tree planting activities within the premises of plants	15	928
Total		1,608	10,669

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

Categories	FY 2005*4	FY 2006	FY 2007
(1) Environmental Conservation Cost			
Investment (million yen)	2,322	2,466	1,608
Cost (million yen)	9,530	9,453	10,669
(2) Environmental Performance Indicators Concerning Environmental Conservation Benefit			
Energy consumption of production activity (crude oil equivalent, kl)	246,954	249,456	244,775
Water consumed (1,000 t)	11,637	12,101	12,243
Greenhouse gas emissions (CO ₂ equivalent: 1,000 t)	478	473	465
SOx emissions (t)	43	35	41
NOx emissions (t)	664	458	432
Wastewater amount (1,000 t)	9,481	9,652	9,905
COD emissions (t)	77	68	64
Waste discharged (1,000 t)	30	34	33
Final disposal amount of waste (1,000 t)	0.5	0.3	0.1
Emissions of chemical substances subject to PRTR Law to the air (t)	4	3	3
(3) Economic Benefit Associated with Environmental Conservation Activities			
Actual benefit (million yen)	1,675	3,189	3,354

*4: Physical quantity benefits for FY 2005 do not include those realized by Kanebo Cosmetics Inc.

Independent Verification Opinions on CSR Report 2008 (Translation from Japanese Edition)

May 27, 2008

To: Mr. Motoki Ozaki
President and CEO, Kao Corporation

Akio Yamamoto
Chairman, Verification Advisory Committee
Japan Responsible Care Council

Yasuo Tanaka
Chief Director, Responsible Care Verification Center
Japan Responsible Care Council

■ Purpose of verification

- Responsible care report verification aims to express opinions from the standpoint of experts in the chemical industry on the following matters as to CSR Report 2008 prepared by Kao Corporation (hereinafter, "the Report"):
 - 1) Rationality of methods to calculate and compile performance indices (numeric values), and accuracy of numeric values
 - 2) Consistency between information contained in the Report other than performance indices (numeric values) and documentary and material evidence
 - 3) Evaluation of Responsible Care activities
 - 4) Characteristics of the Report

■ Verification procedure

- For the company's Head Office, the Japan Responsible Care Council (JRCC) audited rationality of methods to compile and edit performance indices reported by each plant, and verified consistency between information contained in the Report and documentary and material evidence, by interviewing personnel responsible for each task and for the preparation of the Report, examining documents presented and receiving explanations.
- For Wakayama Plant, the JRCC audited rationality of methods used to calculate and compile performance indices as well as accuracy of numeric values, which were reported to the Head Office, and verified consistency of information contained in the Report and documentary and material evidence, by interviewing personnel responsible for each task and for the preparation of the Report, examining documents presented and receiving explanations.
- A sampling method was applied for the verification of performance indices and information contained in the Report.

■ Opinions

- 1) Rationality of methods used to calculate and compile performance indices (numeric values), and accuracy of numeric values
 - The JRCC confirmed that rational methods were employed at the Head Office and Wakayama Plant to calculate and compile performance indices. It also confirmed that Kao established a system called the Environmental & Safety Data Management System ("Kanchan" System), which automatically aggregated numeric values related to environmental and occupational safety activities.
 - Insofar as we audited, numeric values for performance are accurately calculated and compiled. The calculation methods are unfaithfully recorded.
 - The JRCC expects further improvements to be made so that original documents concerning numeric values can be retrieved smoothly.
- 2) Consistency between information in the Report and documentary and material evidence
 - The JRCC confirmed that the information described in the Report is consistent with documentary and material evidence.
 - The JRCC pointed out some deficiencies in appropriateness of expression or comprehensibility of text and charts in the draft version of the Report. However, appropriate corrections have been incorporated in this Report and the JRCC recognizes no important matters that should be corrected.
- 3) Evaluation of Responsible Care (RC) activities
 - The JRCC gives Kao a high evaluation for its established CSR system and reinforcement of compliance and risk management.
 - The JRCC gives Kao a high evaluation for its steady reduction of energy consumption, greenhouse gas emissions, emissions of substances subject to the Law Concerning Reporting, etc. of Releases to the Environment of Specific Chemical Substances and Promoting Improvements in their Management (PRTR Law) and the amount of landfill disposal.
 - The JRCC gives Wakayama Plant a high evaluation for good results achieved in its RC activities, as the Plant has sustained its record of zero accidents since May 2004 and has taken part in forest conservation activities undertaken by local community groups.
- 4) Characteristics of the Report
 - All contents of the Report are published on Kao's Web site, while key contents are extracted and issued in a printed publication.

Major External Corporate Recognition

Review body/publisher	Title of survey	FY 2007 ranking result
Nihon Keizai Shimbun	Nikkei PRISM (Private Sector Multi Evaluation System)	27th
Nihon Keizai Shimbun	Employee-friendly Company	24th
Nikkan Kogyo Shimbun	True Corporate Power Ranking	15th
Nihon Keizai Shimbun	Nikkei Corporate Image Survey	14th by business community; 18th by general public
Newsweek (Japanese edition)	Newsweek Global 500	51st
Ethisphere (U.S.)	2007 World's Most Ethical Companies	Selected (also for FY 2008)



SRI indexes for which Kao has been selected

SRI evaluation organization	Title of index
FTSE	FTSE4 Good Global Index
Ethibel	Ethibel Sustainability Index
Morningstar	Morningstar Japan Socially Responsible Investment Index



FTSE4 Good
Global Index
(FTSE, United Kingdom)



Ethibel Sustainability Index
(Ethibel, Belgium)



Morningstar Japan Socially
Responsible Investment Index
(Morningstar, Japan)

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CSR Report 2008 is also available at Kao's Web site.
<http://www.kao.co.jp/en/csr/>
Issued: September 2008



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