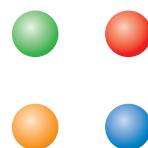




CSR Report 2009

2008.4.1—2009.3.31

Kao Corporation



Scope of Reporting

Organizations covered

In general, this report covers the activities of the Kao Group*. However, "Environmental Activities" only covers domestic group companies. Where data is collected from an organization other than the above, it is specified in the text.

Period covered

Performance data pertains to fiscal 2008 (from April 1, 2008 to March 31, 2009). Data on occupational safety and health, as well as on overseas group companies, covers the calendar year 2008 (from January 1 to December 31, 2008). Some fiscal 2009 activities are also included.

Independent review

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

Activities covered

This report covers CSR activities in relation to the business units described on [page 5](#). Detailed data on economic performance is available in our Annual Report 2009 (issued in late July 2009).

Issuing period

Previous report issued in July 2008

Next report scheduled for issue in early September 2010

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.com/jp/en/corp_csr/r09_bou.html

CSR Report 2009 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, our corporate philosophy, along with their progress.

Structure of This Report

This report is 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 policies for environmental conservation activities and the progress and results of these activities.

Feature Reports

Two issues to which the Kao Group gives priority.

In fiscal 2008, Kao committed itself the pursuit of "CSR activities that enhance corporate value," with the priority objectives of "ecology," "global operation" and "human capital development" defined as keywords for our endeavor, in line with medium- and long-term management strategies and the concerns and interests of our stakeholders. Two of these themes have been examined in detail as Feature Reports in the CSR Report 2009.

The first Feature Report deals with *Yoki-Monozukuri* based on an environmental outlook. Thus far, Kao has focused its efforts on reducing environmental impacts in manufacturing processes. We are now stepping up our efforts to reduce the environmental impact throughout the entire life cycle of our products, in cooperation with our stakeholders. The Report features progress and future plans for our efforts to reduce such product life cycle impacts, along with the text of the Kao Environmental

Statement, which was announced within and outside the Group in June 2009.

The other Feature Report describes how we are “Putting The Kao Way into action through the power of a global workforce.”

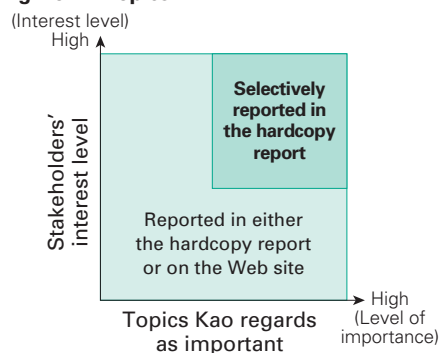
Kao conducts its daily operations in accordance with The Kao Way, placing a high priority on the promotion of fair and honest business conduct. As the Group’s activities expand globally into the future, the global implementation of The Kao Way will become more important, not only for meeting the social needs of developed countries, but also to promote business that takes the sound development of developing nations and emerging countries into account. This Report, therefore, showcases various programs implemented at Kao sites around the world to thoroughly instill our corporate philosophy, codes of conduct and a shared recognition of the need for compliance into all our operations.

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 this booklet 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, since 2008 information contained in the hardcopy version of the CSR Report mainly relates to material issues that have attracted the interest of society or for which disclosure is highly requested, as well as activities where remarkable progress has been made. Any information concerning the Kao Group’s CSR activities which cannot be included in the hardcopy report can be found on the Kao Web site.

Narrowing Down Topics



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Evolving *Yoki-Monozukuri* by incorporating the CSR perspective into business operations



Evolving *Yoki-Monozukuri*, while placing greater emphasis on the basics of CSR

In fiscal 2008, uncertainty in global financial markets stemming from the financial turmoil in the United States rapidly manifested in real economies around the world, with many falling into deep recession. Our Chemical Business targeting corporate customers was not immune to the sharp business setback set in motion last fall and has recorded an unprecedented decline in performance. Daily commodities like detergents, which are generally regarded as less vulnerable to economic slowdowns, were also affected by the recession, with sales stagnating.

In this severe economic climate, Kao must make its utmost efforts to steer the Group back on track for sound, profitable growth, while placing greater emphasis on the basics of CSR, such as corporate governance and compliance. At the same time, we intend to create more opportunities to engage with stakeholders in order to evolve *Yoki-Monozukuri*, the starting point of all our business activities, even further.

In line with global mega-trends

In fiscal 2008, Kao focused much of its energy on shifting from the first phase of CSR activities—introducing CSR activities within the Group—to the second phase of implementing CSR activities on a daily basis, at the same time as evolving its concept of *Yoki-Monozukuri* by incorporating the CSR perspective into business operations.

Putting the current management climate in perspective, there seem to be three social mega-trends. The first is the ever-widening gap in economic parity, which grows even while the center of global economic activities shifts from the United States to emerging countries. The second is the emergence of new segments of general consumers, such as senior consumers and consumers dependent on digital media such as the Internet. The third trend is the growing global concern about environmental issues. How should Kao respond to these trends and further evolve the inherited concept of *Yoki-Monozukuri*? The keywords of our counterchallenge

are “ecology,” “global operation” and “human capital development.”

“Ecology” involves the operation of businesses that allow for sustainability in terms of both people and the natural environment. “Global operation” calls for the expansion of business conducive to the sound development not only of developed countries, but also developing nations and emerging countries. “Human capital development” refers to the training of people, on a global scale, who are capable of creating new value regardless of surrounding circumstances and conditions. By focusing on each of these areas, we believe it will be possible to achieve both sustainability and improved business performance.

Positioning the environment at the core of its management, Kao aims to contribute to “the wholehearted satisfaction and enrichment of the lives of people”

In June 2009, the Kao Group announced an Environmental Statement describing its newly adopted mission and vision both within and outside the Group: “Positioning ecology at the core of management, Kao aims to contribute to ‘the wholehearted satisfaction and enrichment of the lives of people globally’ in the field of cleanliness, beauty and health.”

The Environmental Statement describes Kao’s commitment to develop products with less environmental impact at the consumer-controlled phases of use and disposal, in addition to its energy conservation measures, global warming countermeasures and other initiatives to reduce environmental impacts during the manufacturing phases ranging from materials procurement and manufacturing to distribution and sales. In addition, in our Chemical Business, we are working in cooperation with corporate customers to further reduce environmental impacts. In this respect, the corporate slogan “eco together” is the message that we, as a Group committed to environmental excellence, want our customers and all other stakeholders to take home.

Moreover, we have incorporated our environmental initiatives into our medium- and long-term outlooks to reinforce this ecology-centered management style.

Earning the trust of the global community

I believe that for a corporation to be truly successful, it must be both a good corporate citizen and respected in the country or community in which it operates. Kao’s

support for the United Nations Global Compact, which upholds 10 principles in the areas of human rights, labor and the environment, is an expression of the importance it attaches to the achievement of these goals. In terms of business conduct, we have aimed at establishing a fair and honest management system at our many business sites in Asian countries. In addition, we have been providing training sessions on The Kao Way and compliance for the past four years in these countries and plan to offer such training sessions in other parts of the world as well.

In October 2009, Kao will introduce a new corporate identity (C.I.) aimed at turning the trust its brand enjoys in Japan into a global phenomenon. We have defined a new corporate message, “enriching lives, in harmony with nature,” and plan to create a new, unified global logo by replacing our current business brand logo—which incorporates Japanese characters—with one based on the English transliteration of the word “kao.”

Training employees to implement CSR activities in a way that is compatible with business

It is expected that the current harsh business climate and uncertainties will spill over into fiscal 2009. Yet, even in the most difficult situation, the Kao Group will continue to evolve its *Yoki-Monozukuri* through active dialogue with stakeholders, cognizant of the fact that our very existence is dependent upon the support of society. We will also pour greater efforts into nurturing creative personnel who can make this evolution happen.

To enrich the lives of the people whom we serve and to meet greater responsibilities to stakeholders across the globe, Kao positions CSR activities as an integral part of improving the quality of its management and continues to take all possible measures to ensure further growth.

July 2009

President & CEO
Chairperson, CSR Committee
Kao Corporation

Motoki Ozaki



Enriching lives, in harmony with nature

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 Sekken* quality toiletry soap launched on October 17, 1890, our product offerings have expanded to daily consumer products, such as detergents, shampoos, 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 functionality and performance to industries all over the world. Our overseas group companies are producing and selling products that cater to the needs of their communities and industries, and are thereby contributing to the lives of the local people.

Company Outline (As of March 31, 2009)

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	5,854 (33,745 on a consolidated basis)

Breakdown of Consolidated Sales

Chemical Products	(Unit: billion yen)	222.4
Japan	130.0	
Asia	80.9	
Europe and the Americas	100.5	
Elimination of internal sales	(89.1)	

Consumer Products	(Unit: billion yen)	1,053.8
Japan	857.0	
Asia	83.1	
Europe and the Americas	130.3	
Elimination of internal sales	(16.6)	

Chemical

222.4 billion yen

Fabric and Home Care

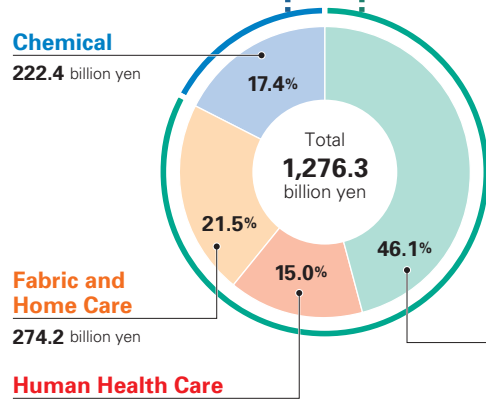
274.2 billion yen

Human Health Care

191.3 billion yen

Beauty Care

588.3 billion yen



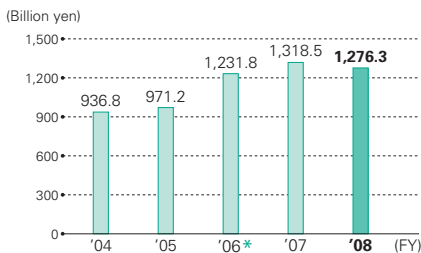
*1 Figures are rounded down to the nearest 0.1 of a billion yen.

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

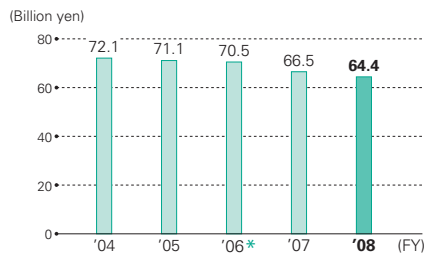
*3 Eliminations of internal sales are eliminations between regions or business units.

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

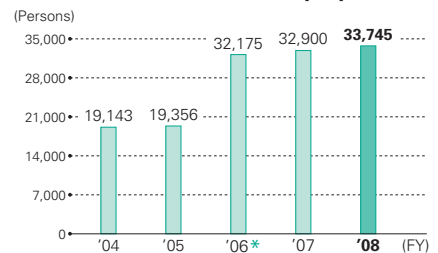
Consolidated Net Sales



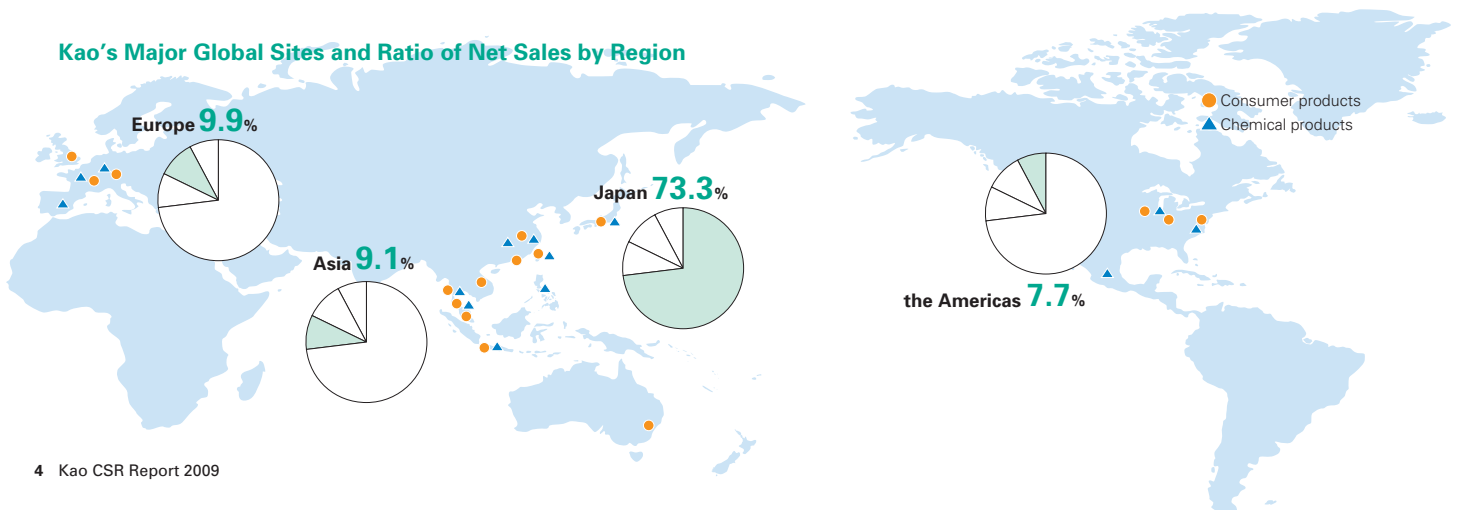
Consolidated Net Income



Consolidated Number of Employees



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



Operating four business units from the perspective of our consumers/customers

The Kao Group employs a matrix management system. We operate the four business units described below, supported by functional divisions such as R&D, production and sales.

Beauty Care Business

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

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

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, professional-use products)



Chemical Business

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



Oleo chemicals
(Fatty alcohols, fatty amines, fatty acids, glycerine, commercial-use edible fat and oil, etc.)



Performance chemicals
(Surfactants, plastic additives, superplasticizers for concrete, etc.)



Specialty chemicals
(Toner and toner binders for copiers and printers, ink and colorants for inkjet printers, fragrances and aroma chemicals)

Based on The Kao Way, Kao is promoting its CSR activities with a focus on the keywords “ecology,” “global operation” and “human capital development.”

The Kao Way as a starting point of our CSR activities

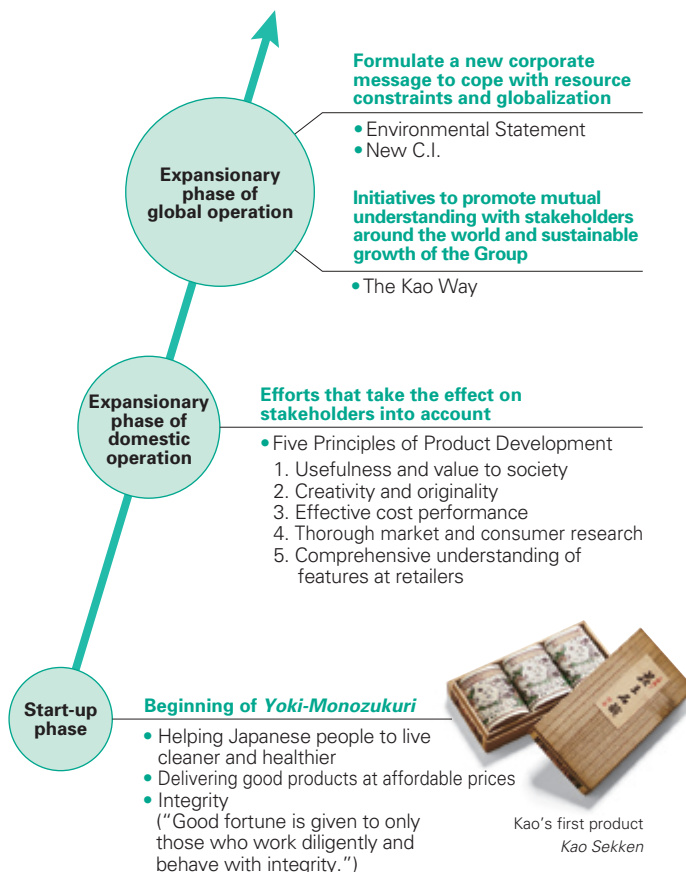
Upgrading an underlying tenet of our corporate culture of *Yoki-Monozukuri* into a corporate philosophy

The history of Kao's *Yoki-Monozukuri* started in 1890 with the release of *Kao Sekken* quality toiletry soap, born of the wish expressed by Kao's founder, Tomiro Nagase, to “contribute to cleanliness and comfort.” This quality toiletry soap, which ushered in the toiletries market in Japan, spread across the country, propelled by Nagase's desire to “deliver good products at an affordable price” and by the management policy centered on “integrity,” which can be read as akin to today's concept of compliance. The popularity of this product laid the foundation for the present-day Kao Group.

Kao inherited a unique product development, manufacturing style and management policy as part of the *Yoki-Monozukuri* philosophy passed down by its founder. With the advent of the consumer society and the era of mass production, Kao formulated the Five Principles of Product Development in 1970 to enhance *Yoki-Monozukuri*. The principles take account of the impact of its products upon society, encompassing consumers, suppliers and retailers.

In October 2004, Kao set forth The Kao Way, which is a distillation of the words and phrases—such as “*Yoki-Monozukuri*”—that describe the unique corporate culture and spirit that has been with us since the beginning. The Kao Way serves as a corporate philosophy underlying all of our corporate activities and a universal concept that enables mutual understanding in the international community.

Kao Group's Management and CSR Perspective



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</i> Cycle
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

Kao Group's CSR Policy

Practicing The Kao Way in all corporate activities

The Kao Group aspires to contribute to efforts to bring about a sustainable global environment and to becoming and remaining a corporate group that has the respect and trust of all its stakeholders, including general consumers, corporate customers, suppliers, employees, local communities, and shareholders (see page 8).

To clarify the steps we are taking to achieve these objectives, the Kao Group has defined all its corporate activities that "enrich the lives of people" based on The Kao Way, or, in other words, put The Kao Way into practice, as CSR activities.

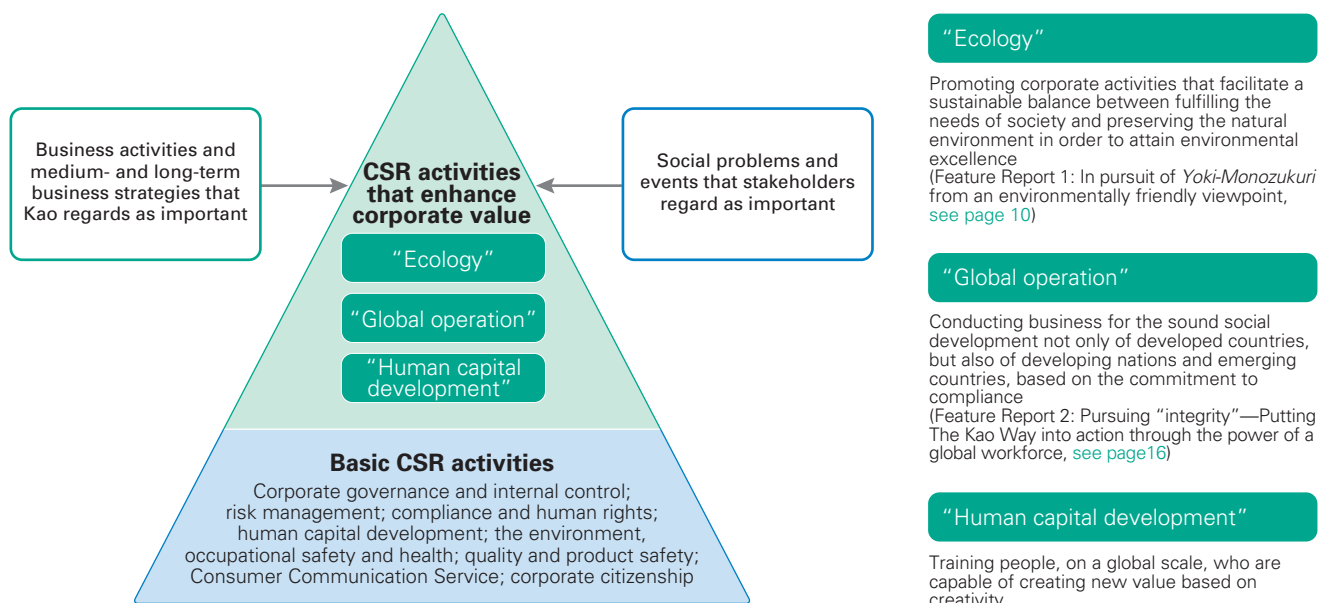
Building upon *Yoki-Monozukuri*, innovation, and integrity—defined as the values of The Kao Way—Kao conducts its business with equal consideration given to three aspects: economics, the environment and social responsibility. The first relates to the pursuit of fairness in daily business activities and an appropriate economic balance. The second concerns unwavering efforts to address global warming and other issues. The third requires us to fulfill responsibilities to each of our stakeholders.

Promoting basic CSR activities and corporate CSR activities that enhance corporate value

The Kao Group has classified its wide-ranging CSR activities into one of two categories: basic CSR activities and CSR activities that enhance corporate value. The former includes corporate governance, risk management, compliance and other activities essential for the Group's survival. We reinforce our basic CSR activities on a continuous basis. Corporate-value-enhancing CSR activities represent efforts to enhance corporate value by incorporating the CSR viewpoint into daily business activities. We decide upon priority themes through verifying selected projects and medium- and long-term corporate strategies from the perspective of stakeholders.

CSR themes that enhance corporate value: "ecology," "global operation" and "human capital development"

Since fiscal 2008, the Kao Group has engaged in CSR activities that enhance corporate value in line with our medium- and long-term management strategies and based on stakeholders' concerns. The themes of these CSR activities can be summed up by the keywords "ecology," "global operation" and "human capital development."



CSR activity promotion policy

CSR activities based on continuous communication with stakeholders

The Kao Group makes every effort to conduct all business activities, including CSR activities, in accordance with the Kao Business Conduct Guidelines (see page 22).

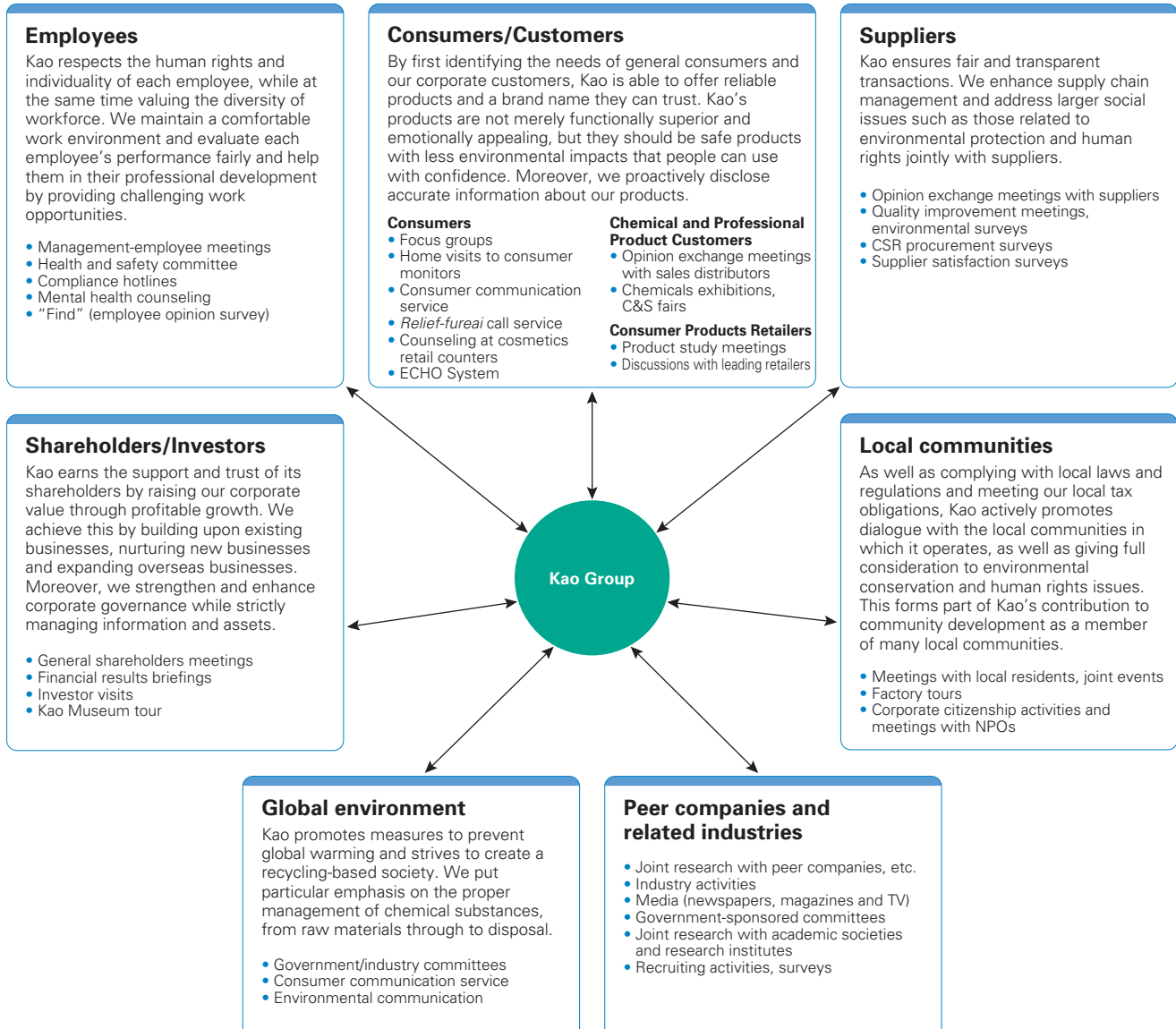
Moreover, this policy is made clear to all employees through training sessions.

To steadily promote CSR activities, we provide regular and ongoing opportunities for dialogue with stakeholders,

where each of our employees can gain first-hand knowledge of stakeholders' opinions, concerns and expectations with regard to our activities. Based on the insights gained, we strive to proactively resolve various challenges with integrity in a systematic, appropriate way. (see page 21, CSR Promotion System)

Modes of dialogue with stakeholders of the Kao Group

- Main communication opportunities



C O L U M N

Kao's CSR activities in progress

**Moving into the second phase of CSR activities:
 "Incorporating the CSR perspective into business operations"**

Kao established its own CSR Committee (see page 21), chaired by the President & CEO in July 2004, and set up a CSR Department within the Corporate Communication Division to serve as its secretariat.

Since then, training sessions on CSR for individual divisions and other CSR-related programs have been organized and implemented.

In April 2005, Kao expressed its support for the Ten Principles of the United Nations Global Compact. In March 2007, it made a formal affiliation with the international non-profit organization, the Roundtable on Sustainable Palm Oil (RSPO). Involvement in such international initiatives has enabled Kao to steadily enhance its CSR efforts.

In 2007, Kao revised its procurement standards for suppliers, replacing Green Procurement with CSR-based Procurement.

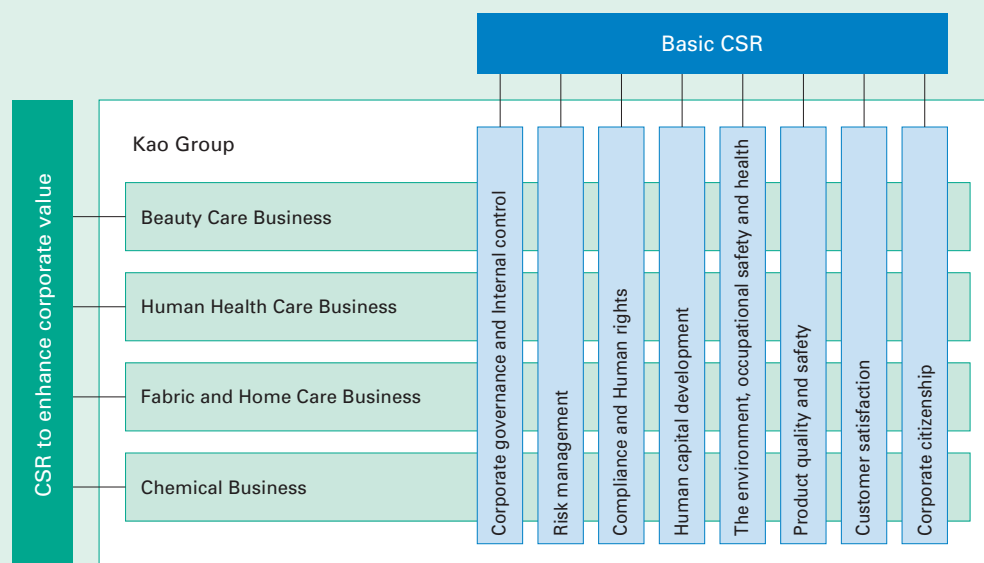
Moreover, from July to September 2007, Kao implemented the CSR Strategy Formulation Project to instill a CSR-oriented mindset within the Kao Group. Junior employees representing each division of the company got together and discussed what kind of CSR activities they believed Kao should promote. They deliberated on the development of environmentally conscious products, the creation of a

business that offers solutions to social problems, and measures to raise employees' CSR awareness.

Concurrently, Kao developed and launched a training program to help employees better understand CSR. At present, e-learning programs are available for all employees.

In March 2008, some of the business unit managers of Kao Corporation and CSR staff at the group companies such as Kanebo Cosmetics Inc. and Kao Customer Marketing Co., Ltd. joined the CSR Committee. This move launched up the second phase of Kao's CSR activities, which calls for the CSR perspective to be incorporated into business activities and groupwide CSR activities to be implemented on a daily basis and builds upon the initial stage, under which CSR activities were first introduced within the company.

To promote CSR activities from a global viewpoint, the Kao Group has reinforced efforts towards basic CSR activities at group companies overseas, particularly in the area of compliance. We plan to define unique CSR activities for each of the group companies in and outside Japan in order to take advantage of the individual characteristics of each and enhance our overall corporate value.

Kao Group's CSR Matrix Management System


1 In pursuit of *Yoki-Monozukuri* from an environmentally friendly viewpoint

Enriching lives, in harmony with nature

In our efforts to reduce environmental impacts, we have six priority objectives (see page 44) based upon the characteristics of our business. Every year we evaluate our performance regarding the level of achievement of these objectives. In June 2009, we established the Kao Environmental Statement to become a corporation that is fundamentally committed to ecologically responsible management at the same time as seeking the fulfillment of our corporate vision.



Toward higher quality, safety, functionality and environmental value—Kao's long-tradition of *Yoki-Monozukuri*

Kao's concept of *Yoki-Monozukuri* represents our efforts to improve, from the perspective of our consumers/customers three types of value provided by our products: functional value including quality, safety and functionality, emotional value, and environmental value. In recent years, from the perspective of economic and social sustainability, "*Monozukuri*" (development/manufacturing of products) to improve environmental value, which is a new added value representing less environmental impacts caused in development and manufacturing processes, has come to assume greater importance. In line with this concept, Kao has implemented various measures to improve its overall "environmental value."

Addition of the Environmental Impact Improvement Rate to the Standards of Product Design for Environment

To enhance the environmental value of all our products, the Kao's product development guidelines include a requirement to reduce environmental impacts while improving the functional performance of products and ensuring their safety and high quality.

To fulfill this requirement, Kao has performed life cycle assessments (LCA) on its products since 2001, assessing the environmental impacts throughout all the stages of a product's life, from the production of raw materials, to design and manufacture, distribution, use and disposal.

In 2004, Kao developed original Standards of Product Design for Environment, to further promote *Yoki-Monozukuri* from the design stage, and uses a check sheet for assessing the potential various environmental and safety issues of a product while it is still on the drawing board.

In fiscal 2008, the environmental impact improvement rate* was adopted to more rigorously quantify environmental impacts over the life cycle of a product and give a clearer indication of the degree of improvement. Since then, 28 new product items, including laundry detergents and paper diapers, for



which environmental impact improvements had been made, have been launched on the market. Kao is planning to make greater use of the environmental impact improvement rate formula in the product development process, while continuing to verify the appropriateness of the data.

* If the whole-life CO₂ emissions of "A" (a standard product) divided by that of "B" (an in-development product) is larger than one, the environmental impact of B is lower than that of A.

Standards of Product Design for Environment

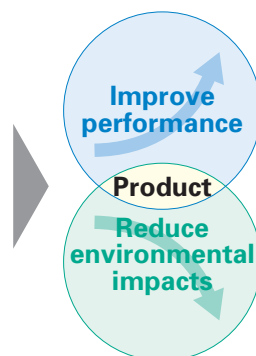
Objectives and significance

To determine items and procedures regarding environmental impacts and safety that must be considered during the design process for the purpose of reducing environmental impacts and ensuring the safety of products

- Compatible with the concept of a recycling society and with business sustainability
- Reducing impacts on the global environment
- Ensuring the safety of users and the protection of the environment
- Improving functions and performance of products and reducing their environmental impacts

Items related to environmental impacts and safety

- Less environmental impact
- Energy saving and resource saving
- Recycling resources
- Safety
- Environmental and safety information included on product labels



Seeking to simultaneously improve benefits to consumers and friendliness to the environment

Masataka Maki

Second Laboratory, Fabric and Home Care Products Research Laboratories
Fabric and Home Care Research Center

I am engaged in developing technology to reduce the environmental impacts of fabric bleaching agents while improving the benefits to consumers. Based on our technology for producing a bleaching activator that is effective on stains, we successfully developed a mixing technology to achieve better performance with a smaller amount, resulting in lower CO₂ emissions. Another successful example is our improved technology to stabilize substances against light and heat, which was applied to developing refill packages and helped reduce the amount of plastic used. These technologies have been further improved, leading to the development of *Wide Haiter EX Power*. I am proud to say that this is the best product on the market for bleaching and odor removal.



Aiming to achieve both improvement in product performance and reduction in environmental impacts

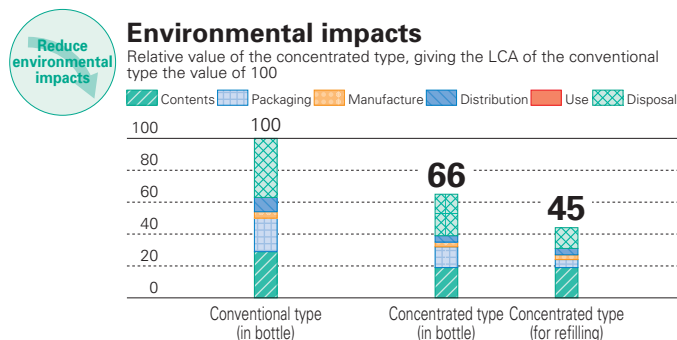
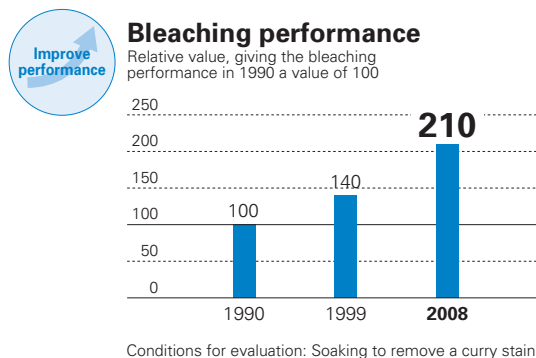
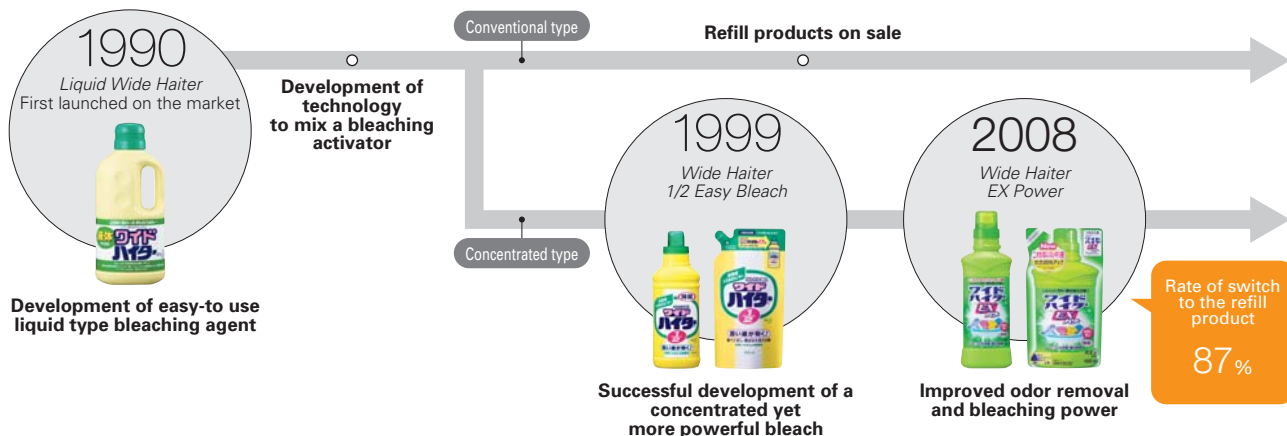
One of Kao's basic principles for product development, to reduce environmental impacts while improving the functional performance of products and ensuring their safety and high quality, can be clearly seen at work in the development of the product line *Wide Haiter*, an oxygen-based liquid bleach that was first marketed in 1990.

In 1996, a technology to mix a bleaching activator into a solution in a stable manner was developed to improve the performance of these products. This technique enabled us to make the bleaching power of the products even stronger, without damaging colors and fabrics.

We did not stop there, however. In 1999, to reduce environmental impacts, a concentrated bleach solution was developed that meant only half as much was needed for the same effect. A refill product was also introduced and the size and weight of the bottle and cap were reduced. In this way, we are continuing to make efforts to reduce the amount of materials used for containers and packaging.

Wide Haiter EX Power with much better odor removal and bleaching power was launched in 2008.

"Improvement in performance" and "reduction in environmental impacts" demonstrated in an oxygen-based bleaching agent *Wide Haiter*



The figures show the amount of CO₂ emissions per laundry load when the standard amount of a bleaching agent is used. In regard to the environmental impacts exerted by the amount of water and electricity consumed for one load of laundry, the amount of CO₂ emitted by the use of detergent alone is counted and that by the use of bleach is regarded to be zero. (The values were calculated using Kao's calculation method based on products that were on the market in 2008.)

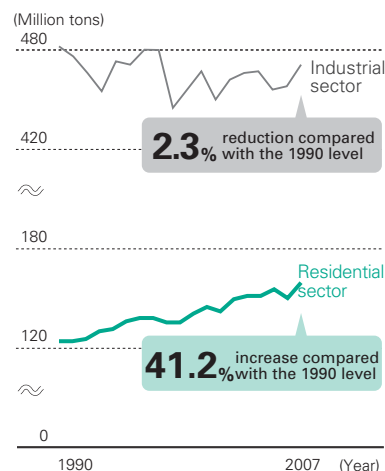
With our products being used in homes every day, we are concentrating more efforts on reducing environmental impacts at the consumer-use stage

The Kyoto Protocol, which stipulates greenhouse gas emission reduction targets for developed countries, requires Japan to reduce its greenhouse gas emissions by 6% from the 1990 level in the five-year period from 2008 to 2012. The amount of CO₂ emissions produced by the country's residential sector, however, has continuously increased since 1990 (see Figure 1).

Kao provides a number of daily-use products such as detergents, shampoos and body washes. Many of these are generally used in combination with large quantities of cold and heated water, which means they have a greater environmental impact at the consumer-use stage than during the manufacturing process.

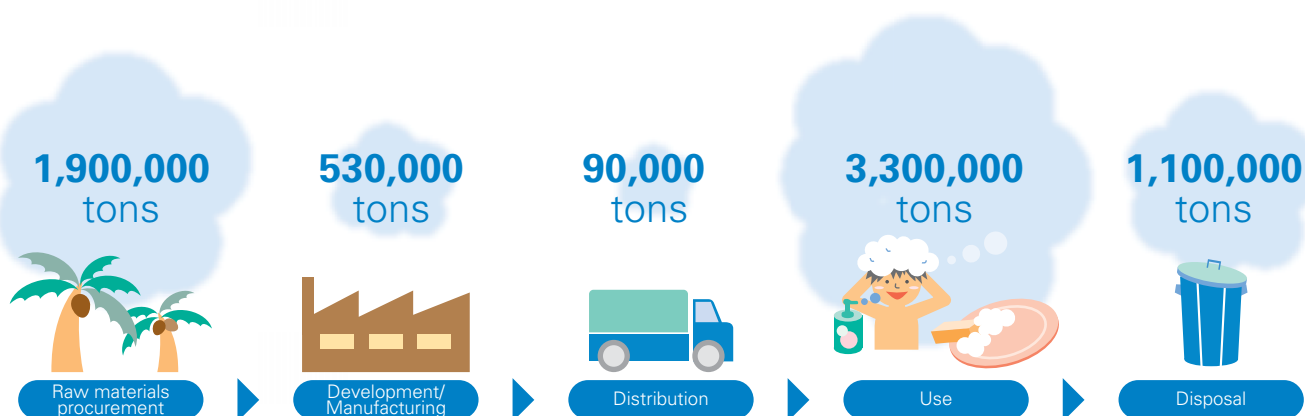
With these two facts in mind, we resolved to reduce the environmental impacts of our products at the consumer-use stage and thereby contribute to the reduction of CO₂ emissions by the residential sector. In June 2009, based on this resolution, we established the Kao Environmental Statement (see page 14).

Change in the amount of CO₂ emitted by the residential sector (Figure 1)



Source: Ministry of the Environment of Japan

Overall CO₂ emissions throughout the life cycle of Kao products (in Japan in fiscal 2007)



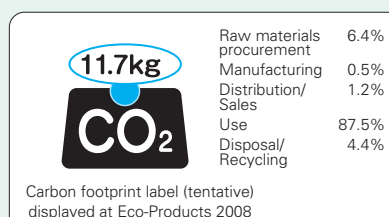
CO₂ emissions: Calculated by Kao (excluding the use and disposal of industrial products)

TOPICS

Carbon footprint shampoo exhibited at Eco-Products 2008

A product's "carbon footprint" represents the total amount of greenhouse gas emissions released in conjunction with the manufacture and use of the product throughout its entire life cycle, converted into an equivalent amount of CO₂. Recognizing that we have a duty to raise environmental awareness among consumers so that we may together seek ways to address environmental issues, in June 2008 we participated in the Study Group for Developing and Promoting a Carbon Footprint Program, organized by the Japanese Ministry of Economy, Trade and Industry.

The study group's findings were later incorporated into Eco-Products 2008, one of the largest environmental exhibitions in Japan, held in December. Kao's shampoo product, *Merit*, which has its carbon footprint clearly marked on the trial label, was put on display with the intention of engaging public opinion and debate on the issues.



Kao Environmental Statement

'eco together'



Kao products are designed for everyday use, in homes around the world. That's why we utilize original Kao-developed technologies to minimize the impact our products have on the environment, not just in the manufacturing process, but in the daily life of the customers who use them. From materials procurement and manufacturing, to distribution, sales, use and final disposal, we want to engage in "eco together" with stakeholders and consumers worldwide.

Enriching lives, in harmony with nature

'eco together' in Action

**With consumers/customers**

Developing eco-friendly, resource-conserving products that make it easy for customers to live environmentally responsible lifestyles.

- Development of water- and energy-conserving products
- Development of refillable and reusable resource-conserving packaging and products
- Development of compact and concentrated resource-conserving packaging and products

**With business partners**

Engaging in environmentally responsible materials procurement, manufacturing, distribution, and sales with our business partners.

- Use of recyclable PET resins in bottles and packaging
- Improved distribution efficiency (reductions in delivery frequency and packaging material)
- Accelerated conversion to plant-based and other renewable raw material sources

**With society**

Becoming proactively involved in society-wide environmental activities.

- Support for environmental conservation activities (greening activities)
- Participation in environmental activities conducted by government, industry, and other groups

2020 Medium-term Objectives

CO ₂ :	Consumer products: 35% reduction (across product life cycle, per unit sales in Japan, relative to FY 2005)
Water:	Water consumption during product use: 30% reduction (per unit sales in Japan, relative to FY 2005)
Chemical substances:	Active implementation of the Strategic Approach to International Chemicals Management (SAICM) to promote sound chemical management
Biodiversity:	Implementation of measures to protect biodiversity through responsible raw materials procurement and other measures

- With regard to commercial/industrial products, CO₂ reduction and resource conservation measures will be undertaken jointly with customers.
- These medium-term objectives represent a first step in ongoing environmental activities that will continue to be expanded in the future.

Positioning ecology at the core of management, we are seeking greater eco-friendliness in the ways our products are manufactured and used

While working to incorporate advanced technologies into the unique traditional Japanese lifestyle in ways that do not disturb the harmonious balance with nature that has been carefully maintained over the years, Kao is ever-striving to contribute to the “wholehearted satisfaction and enrichment of the lives of people.” One of the outcomes of our long experience in dealing with these issues is the Kao Environmental Statement. This statement, which represents our intended future path, was reached after much consideration and discussion about how we can continue to provide “satisfaction” and “enrichment” in new and meaningful ways.

The main objectives of the Environmental Statement are “to develop products, using Kao’s unique technologies, with minimum environmental impacts not only during the manufacturing process but also at the time of use” and “to propose highly ecological approaches that we can implement together with consumers and other stakeholders during the life cycles of our products.” With the Environmental Statement forming the main pillar of our business operations, Kao continues to develop new products and provide information on environmental issues in product development announcements, on product packaging and our Web site, and through advertising.

Kao has also set medium-term environmental targets to be achieved by 2020 regarding CO₂ emissions, the use of water and chemical substances, biodiversity and other parameters closely associated with Kao’s business.

Aiming to enrich the lives of people in harmony with nature, Kao’s *Yoki-Monozukuri* continues to evolve.



Set environmental approach at the core of Kao’s vision

In accordance with the Basic Philosophy and Policies on the Environment, Safety and Health established in 1995, Kao has for a long time been engaged in activities to reduce environmental impacts and contribute to sustainable development while raising the quality of life of people around the world. We take a responsible approach to the environment and safety throughout the entire life cycle of our products, from product development, manufacturing and distribution, to use and final disposal. We also took the initiative in adopting the global principles of Responsible Care, which is the chemical industry’s global voluntary initiative under which chemical companies around the world work together for the comprehensive management of chemicals and other products to secure the safety of humans, and for environmental conservation. The newly established Kao Environmental Statement emerged out of such steady, ongoing efforts and reaffirms our determination to address the issue of climate change, which has come to be regarded as a crisis of global proportions, and to reduce environment impacts in every activity we undertake.

Environmental conservation is an issue that must be addressed by every country, company and person on the earth—all stakeholders. As a producer of a number of products that are used by families, we took the occasion of the announcement of our Environmental Statement to renew our determination to focus more of our energies and resources on developing, for instance, products like detergents that can do their job with less water. This is just one example of our efforts for “eco together.”

Takuo Goto

Representative Director, Senior Executive Vice President
Chairperson of the Committee for Responsible Care Promotion

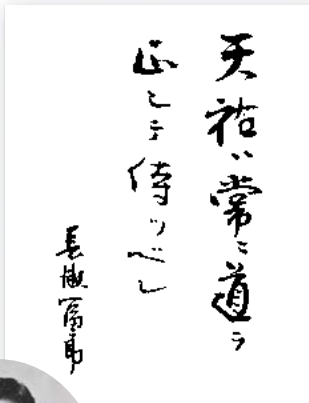


“Good fortune is given only to those who work diligently and behave with integrity”—the final words of Kao’s founder

Integrity is one of the core values which we uphold in the pursuit of our business. This spirit originates from our founder, whose last words, “Good fortune is given only to those who work diligently and behave with integrity,” symbolize our commitment to not only comply with laws but to also behave ethically and conduct our business in a fair and honest manner.

With this spirit and in line with the Kao Management Principles developed in 1995, Kao established its corporate philosophy, The Kao Way in 2004. One of the four components of The Kao Way is “values,” which consists of *Yoki-Monozukuri*, innovation, and integrity. We included the word “integrity” to illustrate our commitment to conducting *Yoki-Monozukuri* that provides greater satisfaction to consumers and our business partners not only through legal compliance but by serving them honestly.

Kao’s Business Conduct Guidelines (BCG) (see page 22) was developed in 2003 based on our Corporate Ethics, as a clear statement of the code of conduct we expect our employees to follow. With the establishment of the BCG, we declared that “We shall not pursue profits at the expense of the ethical principles set out in the BCG.”



Founder
Tomiro Nagase

Feature Report

2 Pursuing “integrity”—Putting The Kao Way into action through the power of a global workforce

Providing an Integrity Workshop* for Kao employees in Asia

Kao is aiming for the establishment of an autonomous compliance system supported by all Kao employees through steady implementation of three initiatives: thorough implementation by Kao employees of Kao’s Business Conduct Guidelines (BCG), the establishment of a compliance hotline for reporting and consultation on ethical issues, and the provision of compliance training.

* Called “compliance training” in Japan.



Updating the BCG and promoting compliance awareness and practices among employees

In the wake of a number of corporate scandals in recent years in which the frequent failure of companies to comply with regulatory and social requirements has been exposed, corporations have increasingly come under public scrutiny. We believe the best response to this is to take the initiative to examine compliance and implement voluntary improvement measures.

Kao does this by regularly revising its BCG to reflect changes in personal and societal values. In addition, we have a compliance hotline (see page 23) that employees can contact to report or receive advice on acts they suspect may be illegal or unethical, providing them with a means of resolving questions and taking responsible actions without fear of retaliation. Moreover, compliance training, which was previously only provided to employees in Japan, has been provided to employees of group companies in other Asian countries since 2008 with the aim of raising awareness about compliance issues. Outside of Japan, this training is called the "Integrity Workshop," named such so as to reaffirm the importance of the BCG with respect to the values embraced by The Kao Way.



Kao Group companies' efforts to enhance compliance

● BCG ◆ Hotline ■ Training

- 1995** Kao Management Principles established
- 1997** ● Corporate Ethics established
- 2000** ◆ Compliance hotline launched on the intranet (Japan)
 - ◆ External hotline staffed by trained counselors launched (Japan)
- 2003** ● The BCG established, a written oath obtained from employees of group companies
 - ◆ External hotline operated by a law firm launched (Japan)
- 2004** The Kao Way established
 - Compliance training started in Japan (for newly employed staff, managers, etc.)
- 2005** ● The BCG partially revised
 - Support for the Ten Principles of the UN Global Compact announced
 - The Kao Way training started in Asia
- 2007** ■ Compliance training provided in the Asian Leadership Training program
 - E-learning on the BCG provided to about 14,000 employees of group companies in Japan
 - Introduction of the BCG or equivalent codes of conduct to each group company both in and outside of Japan completed
 - ◆ Internal hotline launched by overseas group companies
 - ◆ Introduction of the Integrity Line, an external hotline using a service provider, started by overseas group companies
- 2008** ● The BCG partially revised
 - The Integrity Workshop, a compliance training adjusted to meet regional requirements, started in the Asian region
- 2009** ■ Rollout of the Integrity Workshop started at other group companies in Asia (scheduled)
- 2010** ◆ Introduction of the Integrity Hotline at overseas group companies completed (scheduled)
 - The Integrity Workshop offered as one of the first programs on the curricula of the Kao corporate university* (scheduled)

*Kao Corporate university: An internal university operated within the company to provide educational opportunities to all employees of group companies



Training emphasizing individual initiative and specific examples

Tomoko Yamanaka
Legal & Compliance - Global

The Integrity Workshop is conducted to deepen the employees' understanding of the BCG and reaffirm its importance in terms of The Kao Way. In this way, we attempt to ensure business activities are conducted fairly and honestly on a global scale. Participants study examples of local cases, which are selected and developed taking into consideration local culture, laws and business practices. Both actual and theoretical examples are provided to instill in them the idea that to "behave with integrity" is not a special or exceptional virtue but a basic requirement to be met in their daily activities. We believe that two factors that determine the success of the training are the willingness of participants to engage with the ideas and giving them specific examples of how they can practice the concept of integrity in their daily business activities. The Workshop emphasizes that the BCG is not a list of "don'ts" but a tool that is useful not only to make the company better, but also to make our lives more sustainable, which benefits everyone.



Adapting to globalized business operations and the accompanying increasing need for compliance

Over the past few years, Kao has been promoting the introduction of the BCG or equivalent codes of conduct (adapted to local circumstances or conditions) throughout the Group. By fiscal 2007, all group companies had adopted appropriate codes of conduct.

These codes were revised in line with the revision of the BCG in fiscal 2008 (see page 22). At the same time, the Integrity Workshop program was developed for implementation at all companies around the world. Training began at group companies in the Asian region, because of the numerous business sites and increasingly larger share of operations.

The trainers for the program are selected from among local staff and requested to take responsibility for the program, based on the idea that "behaving with integrity is ultimately for your own benefit." They are expected to manage the overall training process in each company and encouraged to incorporate the idea of "behaving with integrity" into their own set of values. Training sessions provide participants with opportunities to discuss specific ways to implement the BCG, based on case studies that take into account the local culture and customs and the unique characteristics of each company's business.

In fiscal 2008, three group companies in Indonesia and Malaysia, with the assistance of an external service provider, launched an external hotline called the "Integrity Line" to complement existing in-house hotlines. At the same three group companies, the Integrity Workshop was conducted as a pilot program for the purpose of getting feedback, which has since been used to improve it. Preparations for the launch of the training have also begun in China.

The official rollout of Integrity Workshop is scheduled to begin in fiscal 2009 for other group companies in the Asian region.

Fostering the Kao Group's culture of integrity

Kao has placed a high priority on integrity since its foundation. Efforts have been made to make sure employees of all group companies understand and practice the concept of integrity in business, and we are constantly searching for better ways to promote the concept throughout the Kao Group. Compliance hotlines have been set up to facilitate reporting and consultation before a problem becomes serious and to help resolve even those problems that would never become major, such as a question as whether or not a certain act is or isn't acceptable by common social standards. Constant improvement has been made to increase the reliability of these hotlines and make them more user-friendly.

Apart from playing a key role in ensuring the sustainability of our company, I believe the concept of integrity basically protects not only our employees but also our customers, partners, shareholders, local communities, the environment, and all of our other stakeholders.

We will continue to focus our efforts to raise the bar on integrity throughout the Kao Group and achieving a much higher level of transparency.



Shunichi Nakagawa

Executive Vice President
Chairperson of the Compliance Committee

CLOSE UP

Efforts by P.T. Kao Indonesia

Indonesia

Hoping to expand compliance awareness throughout Indonesian society

Tsuneo Oba

President & CEO, P. T. Kao Indonesia (Jan. 2005–Feb. 2009)



Since its adoption of the BCG in April 2006, Kao Indonesia has taken measures to make sure employees throughout the company are well-informed of its contents. Recently, however, there have been a few cases of non-compliance reported in Kao Indonesia. Upon the revision of the BCG in 2008, I was the first to make a request for Integrity Training in Indonesia.

The executive officer of Kao Indonesia, who received intensive training in Japan, played the leading role of instructor for the Integrity Training in Indonesia.



P. T. Kao Indonesia began Integrity Training for all employees of its factories and branches in February 2009 and plans to conduct a total of 20 training seminars by the end of December for approximately 800 employees.

In a group discussion based on a case study, participants of each group discussed illegal practices that occurred in our company. Questions that made it into the discussion included, "Why did the incident occur?" "What did the person involved regard as the highest priority?" and "What measures

would be available to prevent recurrence?" The training was well-received by participants, as indicated by comments such as "We needed more time" and "We wanted to learn more," made after its completion.

It will take time for the training to produce concrete results. We need to make persistent efforts until every one of our employees can be seen behaving with integrity in every thing they do on a daily basis. I hope that our employees who have received high-level training in compliance awareness, as citizens of Indonesian society, will go on to play a leading role in developing and expanding compliance awareness throughout their local communities.

Comment from
a training participantHerwita Janusri, Manager
Accounting & Control Department

Wishing to spread the principle of "integrity," learned during the training

The training was very helpful in that I was able to understand specifically what the BCG is and to confirm the Kao concept of integrity. I am now quite keen to be involved in the preparation of improved practical guidelines to help boost Kao Indonesia's integrity.

To promote the spread of integrity, I will first commit myself, as a manager, to act always with integrity, and then encourage those who work under me to follow suit.

Efforts by Kao (Malaysia) Sdn. Bhd., Fatty Chemical (Malaysia) Sdn. Bhd., and three other group companies in Malaysia

Malaysia

After receiving the Integrity Training for trainers in Japan, the managers of the Human Relations Departments of Kao (Malaysia) Sdn. Bhd. (Kao Malaysia), Fatty Chemical (Malaysia) Sdn. Bhd. (FCM), and three other Malaysian group companies provided training to their colleagues.

Kao Malaysia provided a training seminar for eight executives in October and another two training seminars were provided in December to about 30 managers, divided into two groups.

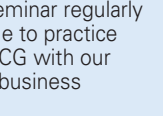
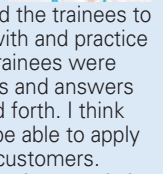
FCM and three other companies provided a training seminar to 23 managers in October. In response to their request to examine different types of cases, participants were divided into four groups, with each group discussing a different case. Later, during presentations, the four groups were able to share what they had discussed separately. Training for ordinary employees was started in March 2009, with all employees having completed the training in June.

Comment from
a trainerJoseph Lim, HR Manager
HR Department, Fatty Chemical (Malaysia) Sdn. Bhd.

Hoping to practice the BCG not only when interacting with colleagues, but also with business partners

The first thing I did in the training was to explain the 11 principles stipulated in the BCG to enhance everyone's understanding of them. I then presented specific cases, based on which group discussions took place, which helped the trainees to acquire the understanding they need to comply with and practice these principles in their daily work. None of the trainees were shy about expressing their opinions and questions and answers concerning realistic, specific issues flew back and forth. I think the training was useful for them because they'll be able to apply what they learned in their daily interactions with customers.

I would like to provide this kind of training seminar regularly in the future so that all of my colleagues will come to practice the BCG principles. I'm also eager to share the BCG with our business partners with the aim of promoting fair business practices together.



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.

Basic Concept and System

Basic concept

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

Kao considers the continuous enhancement of corporate governance to be an important managerial task. We therefore conduct verifications every year based on requests from stakeholders, including shareholders, and social trends, and implement necessary measures in a timely fashion.

Ensuring appropriate compensation of Directors and Executive Officers and implementation of multidimensional Director and Executive Officer evaluations

We have established the Compensation Advisory Committee, which is composed of all Representative Directors, the Chairman of the Board of Directors, and all Outside Directors, to conduct an annual examination of the compensation system and pay level for members of the Board of Directors and Executive Officers at the time of revising their compensation. Kao Corporation has also implemented a stock option compensation plan for its Board of Directors and Executive Officers for the purpose of aligning their interests with those of the shareholders of the company. In addition, compensation is linked to performance based on EVA (Economic Value Added), etc.

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

Continuously enhancing the auditing system and activities

Four Corporate Auditors, including two Outside Corporate Auditors, exchange opinions regularly with the Board of Directors and 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. Corporate Auditors also conduct hearings with internal divisions and our subsidiaries as necessary.

In addition, Kao has established the Kao Global Internal Audit to conduct internal audits of the appropriateness of operational processes and the

adequacy and efficiency of the management of Kao Corporation and its domestic and overseas affiliates.

In July of 2008, Kao established an internal audit function at Kao America Inc. We have also implemented audits to determine compliance with internal rules, audits for exports, and operational audits focusing on the establishment and operation of internal controls.



• **Composition of and appointment to the Board of Directors and Executive Officers**

Enhancement of Internal Control System

Basic policies and structure

In May 2006, Kao formulated its Basic Policies on the Development of Internal Control to ensure the transparency of management and appropriate implementation of all operations. In accordance with these policies, Kao established the Internal Control Committee, chaired by the President & CEO of Kao Corporation, to discuss and determine the development of the structure and operating plans related to internal controls. The committee also evaluates the status of this development and operation on a regular basis and continuously makes improvements as needs arise.

The Internal Control Committee has six subcommittees that oversee information disclosure, compliance, protection of trade secrets (TS) and personal information, risk management, Responsible Care (RC) promotion, and product quality assurance, and promotes internal control initiatives by employing the PDCA (Plan, Do, Check and Act) cycle for each subcommittee. Directors and Executive Officers who sit on these six subcommittees as key members also serve on the Secretariat of the Internal Control Committee, which provides overall internal control oversight, to confirm the status of development and promotion of internal control.

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

In preparation for the Internal Control Report System under the so-called J-SOX Law, which was made effective in April 2008, Kao had been engaged in the Project to Promote the Documentation of Internal Control since fiscal 2006 and has been conducting activities to enhance the reliability of financial statements, including the documentation of major business processes.

In fiscal 2008, to replace the Project to Promote the Documentation of Internal Control, the J-SOX Secretariat was launched.

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

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

Basic Concept and System

Establishment of a CSR promotion system centered on the CSR Committee

Kao has established an organizational system centering on the CSR Committee and the CSR Department to promote and oversee CSR activities at the group level.

The CSR Committee is chaired by the President & CEO of Kao Corporation, and committee meetings are held four times a year with the participation of divisional representatives. At the meetings, individual divisional activities and challenges are discussed and solutions for the challenges are sought. In fiscal 2008, with the company-wide spread of CSR, new members from four business units and R&D division and affiliates joined the CSR Committee, and the issue of “how to incorporate CSR perspectives into daily business activities and practice CSR” was actively discussed.

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

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

Participation in the Global Compact (GC)

In May 2005, Kao announced its participation in the Global Compact (GC)*, and continues to maintain its

commitment. To instill in our employees the spirit of the GC, Kao added the line, “We support and implement the ten principles of the Global Compact advocated by the United Nations,” to our Business Conduct Guidelines

(BCG) when we revised the document in fiscal 2008.

In addition, Kao conducts a GC-based survey of Kao Group companies throughout the world every year. The fiscal 2008 survey uncovered no violations of the compact, such as the use of child labor.



*Global Compact

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

Measures for Promoting CSR Activities

Expanding CSR activities to Kao Group companies

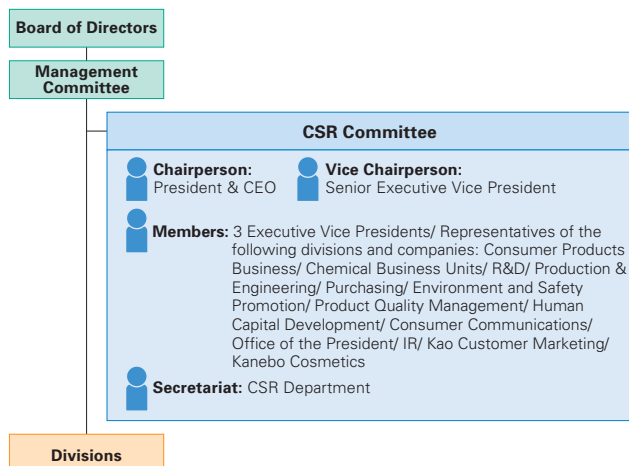
Kao Customer Marketing Co., Ltd. implemented CSR training targeting managers in the Chugoku and Shikoku regions in August 2008. Participants discussed the characteristics of the company’s CSR activities and ideal methods of communication with its stakeholders.

Kanebo Cosmetics Inc. established its CSR Committee in April 2008 and discussed its CSR vision and priority activities. At the same time, the company distributed “CSR Study Materials” on its intranet and via the mobile phone network with the aim of developing a CSR mindset among employees.



• Implementation of training and explanatory meetings of CSR

CSR Promotion System (As of March 31, 2009)



TOPICS

CSR Report 2007 receives Third Prize in the Sustainability Reporting Award

In May 2008, Kao’s CSR Report 2007 was named the Third Prize winner in the Sustainability Reporting Award at the 11th Green Reporting Awards, co-sponsored by Toyo Keizai Inc. and the Green Reporting Forum.

Kao’s establishment of a definite code of corporate behavior, implementation of CSR activities to suit our widespread business activities, and disclosure of CSR-related information were cited as the main factors that resulted in the prize being awarded to us.

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.

Basic Concept

Basic concept – “Integrity”

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

Introducing Kao's Business Conduct Guidelines

Established in 2003, Kao's Business Conduct Guidelines (BCG) sets clear standards of behavior, based on the principle of integrity, that employees are expected to abide by in the conduct of their everyday duties. In preparing the BCG, we referred to documents like Nippon Keidanren's Charter of Corporate Behavior. Since their establishment, we have regularly reviewed the contents of the BCG to reflect Kao's participation in the UN Global Compact (see page 21) and changes in the public and business sphere.

As the Kao Group, we have introduced the BCG or other equivalent codes of conduct based on the BCG into most domestic and foreign affiliates.

 **• Sharing and utilizing various internal rules and guidelines on the intranet**

Kao's Business Conduct Guidelines (11 Sections)

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

 **• Full text of Kao's Business Conduct Guidelines**
http://www.kao.com/jp/en/corp_info/compliance.html

Compliance Promotion and Check System

Establishing a Compliance Committee

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

There were no significant violations of laws by any Kao Group companies in fiscal 2008.

Implementing compliance audits and monitoring

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

• Self-appraisals of individual divisions

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

• Employee opinion survey “Find”

The Kao Group conducts a global employee opinion survey, “Find,” (see page 34) every other year to monitor employee satisfaction, including by collecting information on employee compliance efforts.

• Supplier satisfaction survey

In Japan, Kao conducts in key departments a supplier satisfaction survey once every three years.

• Self-check exercises at compliance seminars

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

TOPICS

Kao's BCG revised to reflect changes in social and business circumstances

Kao completed the second revision of the BCG in 2008. In line with new social and business trends, we revised some passages to place more emphasis on consumers, including those related to safety and quality. We also added descriptions of measures to deal with excessive overtime by employees, mental health support and for the first time included the expression “work-life balance.” The revised BCG was distributed to all employees in Japan and at some overseas subsidiaries in the form of a brochure. In addition, we posted the revised contents on the intranet in Japan and confirmed electronically if Japan-based employees had in fact read them or not.

Measures to Enhance Compliance

Establishing compliance hotlines inside and outside the company

Kao and its domestic subsidiaries have established both internal compliance hotlines operated by the Compliance Committee secretariat and external hotlines operated by outside specialists, including law firms, to provide a means for the reporting of compliance-related matters, including legal or ethical violations.

All of these hotlines are able to receive reports and inquiries from not only all Kao Group employees in Japan, but also related parties, including our domestic business partners. During the consultation process, caller identities are strictly protected. In addition, proper consideration is given to ensure that persons making reports and inquiries will not suffer disadvantage as a result, and when it is necessary to confirm with a third party in connection with a report, such confirmation is made after getting the approval from the caller. Moreover, to show the proper respect for those making reports and inquiries, reports received by e-mail by Kao will be replied to within 24 hours (on business days) as a rule. Furthermore, in our overseas subsidiaries, Kao is expanding and improving external hotlines to complement the existing internal hotlines.

In fiscal 2008, an average of 18 reports were received per month (including at overseas Kao Group companies).

Holding an internal seminar aimed at preventing insider trading

To prevent insider trading, Kao has introduced a system whereby it requires board members and employees with a high degree of likelihood to be close to important information to submit a notification in advance to the Disclosure Committee secretariat when they are intending to buy or sell Kao Corporation's stock to determine if there are any problems present.

In December 2008, we invited a lecturer from the Tokyo Stock Exchange to take part in an internal seminar targeting specified board members and employees to further increase their awareness of insider trading. In addition, we implemented an e-learning program on the subject.



- Conducting compliance workshops on a regular basis
- Sharing problematic examples over the intranet
- Distributing Compliance Help Cards
- Expanding and improving external hotlines at overseas Kao Group companies
- Establishing the "legal expert" system
- Establishing a system to avoid infringement of the intellectual property rights of others
- Promoting compliance activities in product labeling and advertising

Information Security and Protection of Personal Information

Establishing management systems for trade secrets and personal information

Kao has established Guidelines on Handling Trade Secrets, Kao Guidelines for Handling Personal Information, and IT Security Guidelines, based on its Information Security Policy to ensure business activities are carried out in accordance with the relevant laws. In addition, 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. At overseas Kao Group companies, we are also establishing various information management systems based on Kao's domestic efforts.

Kao retains a large amount of personal information of participants in promotional campaigns, consumer monitoring programs, etc. In accordance with the Japanese 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 Japanese Ministry of Health, Labour and Welfare's guidelines, the personal information of Kao employees in Japan is also kept secure.



Implementing divisional self-patrols

TOPICS

Kao chosen as one of the "World's Most Ethical Companies" for the second consecutive year

Kao was chosen as one of the "World's Most Ethical Companies" by American ethics magazine, Ethisphere, for the second consecutive year in 2008*. The survey was



Trophy presented to companies chosen in 2008

conducted by the magazine's publisher, the Ethisphere Institute, an American think tank specializing in business ethics and corporate social responsibility, targeting 10,000 companies from around the world, based on seven evaluation points, including CSR-related activities and corporate governance.

*Starting 2008, the awards were jointly operated with Forbes.

Based on Kao's Risk Management Policy, Kao endeavors to manage and deal with risks by setting clear priorities.

Basic Concept

Specifying priorities in managing risks associated with business operations

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

Risk Management System

Promotion of the PDCA cycle of risk management

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

In fiscal 2008, we conducted a self-appraisal of responses to divisional risks to promote the PDCA cycle.

In fiscal 2009, we will introduce a standard evaluation method to reduce variations in the results of previous year's self-appraisal to further promote the PDCA cycle.

 **Establishing a company-wide risk management system**

Measures towards the Enhancement of Risk Management

Sharing cases and information concerning risk management

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

management awareness.

In the Risk Management Promotion Liaison Meetings of fiscal 2008 we studied cases and exchanged information on the following themes:

- Review of domestic incidents (the discovery of a foreign substance in Kao's beverage product, Healthy Green Tea)
- Report of quantifications of major divisional risks
- Formulation of a contingency manual to deal with novel influenza
- Report of responses to divisional risks
- Report and review of risk management activities of domestic affiliates
- Results of divisional risk survey for fiscal 2008

In response to the novel influenza (H1N1) outbreak in April 2009, we implemented necessary measures for company-wide infection prevention and business continuity in accordance with the manual.

Improvement of a risk management system at overseas subsidiaries

The operational risks faced by our overseas subsidiaries have been adequately controlled by the risk management activities conducted by both our headquarters in Japan and our overseas subsidiaries.

We provided risk management training at our Japan headquarters to newly appointed presidents and plant managers who were to be transferred from Japan to overseas subsidiaries and updated the emergency reporting network headed by our Japanese headquarters. In addition, we discussed the possibility of an outbreak of novel influenza in Asia and measures to deal with it as well as the risk of terrorist attacks in Europe and the United States and actions to be taken by employees travelling on business in the event of these kinds of incidents occurring.


Under the scope of the global development of risk management activities, we improve risk management systems at our 17 subsidiaries in Asia, Europe and the United States and promote risk assessment and the PDCA cycle of reducing risks. In July 2008, we held a Risk Management Promotion Meeting for Asian affiliates with the aim of sharing risk information and measures to deal

with risks among our overseas subsidiaries.

In fiscal 2009, we will continue to promote risk management activities at individual overseas subsidiaries and improve the risk management system at our group companies on a global scale.



Risk Management Promotion Meeting for Asian affiliates

-  **Promotion of surveys and quantification of major risks**
- Enhancement of the management system for risks requiring emergency response and the formulation of Business Continuity Plans (BCP)
 - Training for large-scale earthquakes

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.

Basic Concept

Support for chemical industry initiative

Kao promotes activities in line with the underlying concepts of the Responsible Care (RC) initiatives, the chemical industry's initiative for self-managed activities directed toward environmental preservation and safety, in order to secure the safety of all stakeholders and to promote environmentally friendly activities throughout the entire business cycle of product development, production, distribution, consumption, and disposal.

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

 **Basic Philosophy and Policies on the Environment, Safety and Health**

TOPICS

Kao's CEO signs Declaration of Support for the Responsible Care Global Charter

In August 2008, Kao's top executive signed the Declaration of Support for the Responsible Care Global Charter, committing the Group to enhance RC activities on a global scale. The International Council of Chemical Associations (ICCA)^{*1}, an industry body, promoted the Global Product Strategy (GPS)^{*2} and formulated the Responsible Care Global Charter in 2006 in order to achieve the Strategic Approach to International Chemical Management (SAICM) by 2020. The charter was prepared based on the recommendations of independent stakeholders around the world in response to growing public dialogue on the subjects of sustainable development, public health issues related to the use of chemical products, and the need for greater industry transparency. The charter is composed of nine elements, including "Commit to advancing sustainable development" and "Continuously improve and report performance."

^{*1} International Council of Chemical Associations (ICCA)

ICCA is an international organization made up of chemical industry associations from around the world, including the Japan Chemical Industry Association, which is organized by companies and associations that manufacture and handle chemical products and engage in related businesses.

^{*2} Global Product Strategy (GPS)

GPS is an action guideline to enhance the global management of chemical substances. With the aim of implementing safety assessment of chemicals in commerce by 2018, the GPS mentions the formulation of an international guideline for the management of chemical substances.

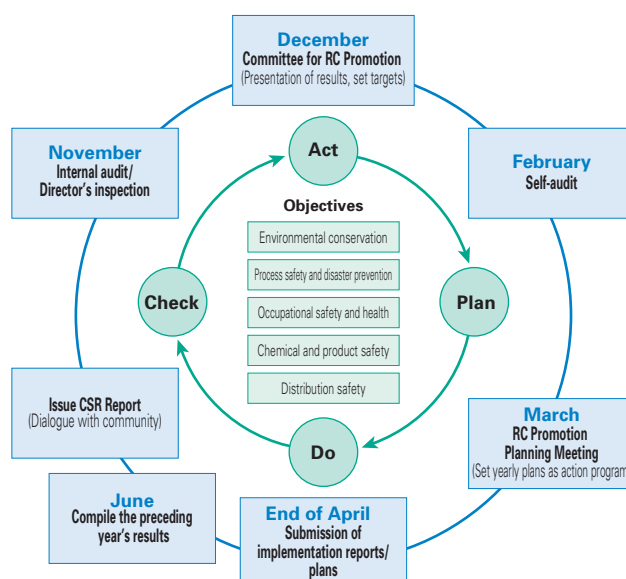
RC Activity Promotion and Check System

RC promotion system

Kao holds meetings of the Committee for Responsible Care Promotion in December each year to regularly manage the progress of the PDCA cycle for RC activities. The Committee for Responsible Care Promotion, one of the committees that constitute the Internal Control Committee, consists of 12 members, 10 of whom each represent the 10 divisions and business corporations that promote RC activities within the domestic Kao Group plus representatives from the Environment and Safety Division and the Product Quality Management Division, and is chaired by the Board Director in charge of Environment & Safety. The Committee for Responsible Care Promotion discusses measures for ensuring a complete understanding of the RC philosophy and reinforcing the RC management system. The Committee also discusses the following fiscal year's targets for RC activities based on the results of the internal audit that is carried out every November. The RC Promotion Planning Meeting is held every March to deliberate each of the draft plans submitted by the individual divisions in charge of RC promotion.

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

Annual Schedule for RC Activities



Utilization of environmental and occupational safety database

Kao has established the Comprehensive Management System for Chemical Substances to manage chemical substances in an appropriate manner (see page 29), and the Environmental & Safety Data Management System ("Kanchan" System)*¹, an environmental and occupational safety database, to reduce the environmental impact and decrease the number of occupational accidents, and operates them across the Kao Group.

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

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

Data shared among the Kao Group under this system 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 of, occupational accident statistics, traffic accident statistics and more.

*2 PRTR/MSDS: See page 48

Conducting RC auditing

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

In fiscal 2008, self-audits were conducted in October, and internal audits were conducted in November. These audits uncovered no significant problems.

Results of RC Internal Audits Conducted in FY 2008

	Production & Engineering	R&D	Business Units	Corporate	Affiliates
No. of questions	41	32	61	61	73
No. of items requiring continued observation	10	3	6	16	13
Average evaluation score (5-point scale)	4.63	4.97	5.00	4.87	4.58

* For the domestic Kao Group

Measures to Promote RC Activities

Summary of the basic five elements of RC activities

•Environmental conservation

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

•Process safety and disaster prevention

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

•Occupational safety and health

Together with the members of the health and safety committees at each Kao office and plant, we are improving 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.

•Chemical and product safety

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

•Distribution safety

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

* Yellow Card

A Yellow Card provides toxicity information, emergency measures, parties to contact in case of an accident and other information 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.

Implementing continuous RC education

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

In fiscal 2008, the Responsible Care Promotion Office provided 53 RC training sessions for a total of 881 participants.

Results of RC Education Conducted in FY 2008

	Production & Engineering	R&D	Business Units	Corporate	Affiliates	Total
No. of training sessions	14	2	9	9	19	53
No. of participants	231	15	296	112	227	881

* For the domestic Kao Group

As a manufacturer of consumer products and cosmetics that are used by 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.

Basic Concept

Looking at all corporate activities from the perspective of quality

Kao not only achieves “basic quality,” including regulatory compliance and human and environmental safety, but also addresses product quality management from a wider perspective to achieve “attractive quality.”

For example, we label our products in such a way that customers can easily understand their effectiveness and feel confident when using them, including by providing clear instructions and precautions. Overall, this approach contributes to improving the quality of Kao’s corporate management as a whole, such as in the establishment of a transparent management system and attempting to ensure accountability to our stakeholders.



- **Basic Policies for Quality Management Activities**
- **Reflecting the concept of “consumer-driven” in our Basic Policies for Quality Management Activities**

Product Quality Management System

Establishing a company-wide mechanism

Kao holds Quality Assurance Committee meetings three times a year to confirm the reliability and effectiveness of Kao’s company-wide product quality management system.

The Quality Assurance Committee—a member committee of the Internal Control Committee—consists of the board member in charge of Product Quality Management and representatives of relevant divisions. It determines important company-wide policies and measures regarding quality management.

Each business unit holds an annual Quality Assurance Meeting and confirms its quality management policy, quality-related problems, and the progress of quality management activities. In addition, each business unit holds a monthly Quality Improvement Study Meeting to discuss and implement the quality confirmation measures for new products and improved products and the quality improvement of products after their launch.

Representatives of business units and corporate divisions, including Product Quality Management, also participate in meetings of the Quality Assurance Committee and each business unit. This ensures discussions are conducted in a balanced way from the two perspectives of “business unit” and “corporate division.”

The Product Quality Management Division serves as the secretariat of the Quality Assurance Committee and takes charge of promoting and overseeing Kao’s quality management activities as a whole.

Conducting quality management audits

The Product Quality Management Division implements audit activities concerning product quality management at the Kao Group and conducts quality management audits on an ongoing basis. The quality management audit is an initiative to determine audit themes and confirm that business, R&D, and production divisions are conducting quality management activities appropriately. In the event that the audit uncovers problems, the Product Quality Management Division makes a thorough examination of the underlying factors, reviews the quality management mechanisms, and reports their findings at meetings of the Quality Assurance Committee, along with the results of audits covering the entire company. In fiscal 2008, the Product Quality Management Division set eight audit themes and audited the R&D, production, SCM Center, and commission manufacturing management divisions.

As part of the company-wide audit activities in fiscal 2008, external and internal audits of each plant’s ISO 9001 systems as well as audits of commission manufacturers and raw materials producers were conducted.

Quality Management Activities throughout the Entire Product Life Cycle

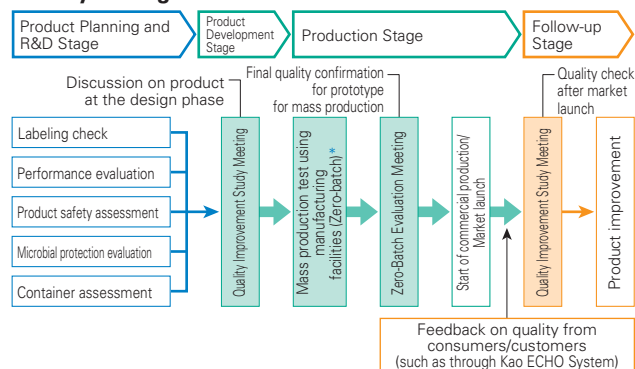
Pursuing quality throughout the entire product life cycle

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



- **Introducing the Approval Circulation System**

Quality Management Flow



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

Ensuring Product Safety

Pursuing safety through science and considerations of actual use

Kao implements various scientific safety assessments to confirm the safety of its products for people and the environment and ensure food safety. For these safety assessments, Kao has established its own standards, which are stricter than the relevant laws, as well as the Kao Safety Assessment Standards for Products and Materials, a guide outlining assessment procedures according to product characteristics. Based on these standards, our Safety Science Research Laboratories, which are independent from our product development and research divisions, implement safety assessments of all materials and products.

Together with scientific safety assessments, to ensure safety during the actual use of products—assuming actual conditions from product selection to purchase, use, storage and disposal—a Product Safety Study Meeting is held to discuss issues that may arise for expected users of our products, including those related to product containers, ingredients, characteristics, directions for use, warning labels, and the wording used in advertisements. The meeting, which consists of representatives from the divisions related to product quality management, consumer communication, and fundamental research, considers the issues and makes its recommendations from the standpoint of consumers.



• Developing animal testing alternatives

TOPICS

Providing a guideline for replacing spray mechanisms in spray-type containers

With the increase in the use of refill products as a more environmentally friendly alternative, there is concern that age-related degradation of spray-type containers, whose spray mechanisms can be used repeatedly if empty bottles are replaced with new ones, will cause detergent to leak, resulting in adverse effects on the human body. Kao is therefore promoting the improvement of the durability of spray-type containers. In addition, from fiscal 2009 Kao will display a rough guideline for replacing old spray mechanisms in spray containers of products that contain sodium hypochlorite.



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

Quality Management Activities for Food Products

Practicing “food defense”

As incidents and scandals related to food safety continue to occur in succession, “food defense”—preventing the intentional contamination of food products with poisonous substances—has emerged as an important issue.

As part of daily quality management efforts to identify and check abnormalities, Kao tracks the movement of people, goods and equipment and monitors its management system, a practice that naturally ties with the idea of food defense. Kao promotes the enhancement of food defense through regular auditing of both ourselves and our external contracted manufacturers.

Obtaining Certificates of Product Specification for all raw materials

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

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

Since fiscal 2007, we have incorporated our data on food product materials into our Comprehensive Management System for Chemical Substances ([see page 29](#)) so that we can use it from the research and development stage. In addition, Kao audits its raw materials suppliers and meets with them to confirm the content of contracts and quality of their management systems.

* Original materials

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



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

TOPICS

Developing a fast method by which to detect fungi

Kao consistently focuses its efforts on developing its own inspection techniques. In fiscal 2008, Kao developed a new and more efficient method of inspecting for fungi. This new method, which depends upon bioluminescence, can quickly detect fungi by measuring adenosine triphosphate (ATP), a substance that only living fungi contain. Kao also developed a method to identify the fungi detected by type. By using these methods in delivery inspections of beverages, we can obtain accurate measurements in only half the conventional time, which will make a substantial contribution to the efficiency and enhancement of quality management.

To ensure the safety of all of our several thousands of individual products 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.

Basic Concept and System

Unified management under the Comprehensive Management System for Chemical Substances

Kao has been operating the Comprehensive Management System for Chemical Substances since 2001 as part of its endeavors to confirm the quality and safety of products from different angles. The system compiles a database of individual products, materials, and ingredients by assigning the Kao Group's uniform identification codes to them.

By using this system, we can instantly confirm information on the safety, antiseptic aspects, related laws and regulations, etc. for individual products, materials, and ingredients. If a problem with quality then occurs, we can immediately determine the extent of the impact.

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

Measures toward the Enhancement of Information Management

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

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

Comprehensive Management System for Chemical Substances.

* REACH

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



• Preparing MSDS compliant with GHS in Asian countries

Participating in Programs on Chemical Safety

Towards the implementation of global management of chemical substances

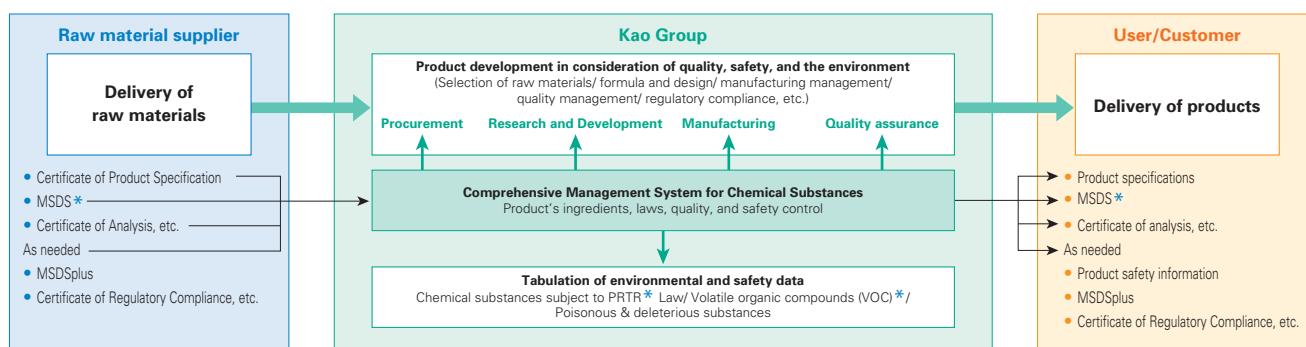
Kao Corporation's CEO has signed the Declaration of Support for the Responsible Care Global Charter (see page 25). By implementing the charter, Kao endeavors to continuously improve its performance in the areas of the environment, safety, and health and promote sustainable development, and supports and promotes the appropriate spread of Responsible Care activities along the business value chain.

As part of these efforts, Kao aims to manage chemical substances by taking into account the entire life cycle of products and keeping risks identified based on a sound understanding of chemicals squarely in mind. To this end, Kao provides support and cooperation for the implementation of a system promoted by Japanese, European, and U.S. chemical industry associations, in which hazard and risk information of chemical products is input and shared across the globe, in other words, the management of chemical substances including supply chains (GPS).



• Participating in ISO/TC217 Working Groups

Overview of Kao's Comprehensive Management of Chemical Substances



*MSDS/PRTR/VOC: See page 48

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.

Basic Concept

Yoki-Monozukuri based on consumer feedback

As per its corporate mission and in accordance with our corporate philosophy, The Kao Way, Kao is constantly striving to satisfy our customers and enrich the lives of people everywhere by conducting *Yoki-Monozukuri* based on viewpoint of the consumer.

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

In addition, in January 2009, Kao introduced the Kao ECHO System in nine group companies in Asia and Australia, enabling them to share consumer feedback in



Asia Consumer Communication Managers Meeting

real time. This has proved to be a valuable communication tool for group companies importing each other's products for sale on different domestic markets.



- Utilizing the uniquely developed Kao ECHO System
- Kanebo Cosmetics Inc. also introduces the ECHO System

Consumer Response System

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

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

In fiscal 2008, we received approximately 145,000 consumer inquiries by phone and e-mail, showing a 9% increase over the previous year. (See the graph below right)

Global promotion of consumer-driven *Yoki-Monozukuri*

Kao has been spreading the concept and method of conducting *Yoki-Monozukuri* by utilizing consumer feedback throughout its domestic and overseas group companies.

For example, in 2005 Kao launched an annual meeting to give consumer communications managers in Asia the chance to get together to exchange views and share techniques for improving responses to consumers and incorporating feedback.

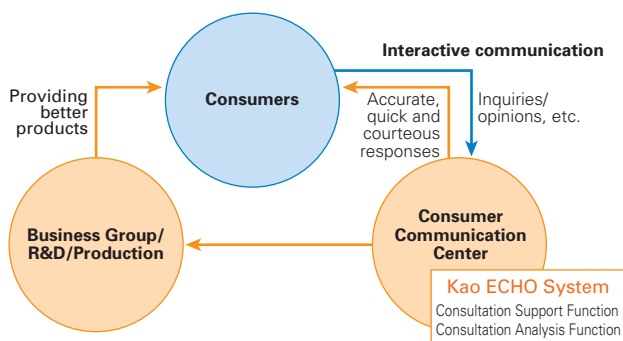
Practicing *Yoki-Monozukuri*

Incorporating consumer feedback into product development

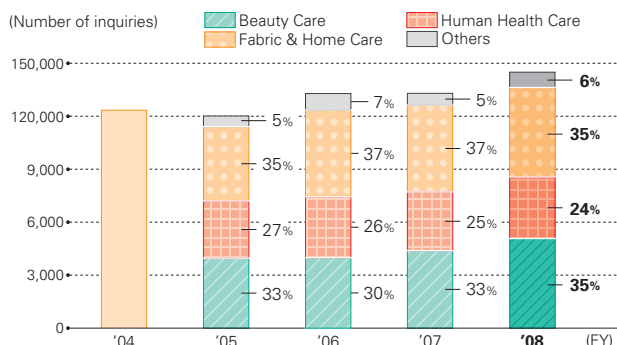
Comments and requests received from consumers as a result of active efforts to maintain close communications are passed on to our development, research, production, and other relevant divisions and reflected in *Yoki-Monozukuri*.

Included among the many ways in which Kao uses consumer feedback to raise customer satisfaction are improving product performance, making containers easier to use, designing easy-to-understand labels, and developing useful and informative advertising.

Mechanism to Reflect Consumer Voices in Products



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



Understanding Consumer Attitudes to Improve Customer Satisfaction

Conducting regular surveys to identify changes in consumer attitudes

The customers who tend to be the most willing to take the initiative to provide Kao's Consumer Communication Center with feedback in the form of comments and requests are getting older every year. Due to this demographic idiosyncrasy, we found ourselves having difficulties identifying the specific concerns, opinions and needs of younger consumers. To address this lack, in our latest survey on consumer awareness, we included questions designed to shine a spotlight on younger consumers and their behavior. Survey results confirmed that young people are more likely to turn to the Internet to answer any questions they may have concerning products and also have a stronger tendency to use the Internet as a communication tool. We also ascertained that the percentage of consumers who actually make complaints direct to companies is relatively low across all age groups, and that many people simply relieve their frustrations in daily conversation or on blogs. Where consumers do

make complaints, however, and are met with satisfactory responses, a good proportion of them recover their trust in the products in question and the companies that supply them, thus reaffirming for us the importance of maintaining adequate lines of communication between us and our customers.

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

Providing Appropriate Information

Providing a range of information on the Web

The types of inquiries that we receive from customers range from requests for instructions on the proper use of products to information on safety and environmental effects. In response, Kao endeavors to consistently provide up-to-date information on its Web site. In particular, we have a number of different sections of our Web site, including Products Q&A, in which we emphasize important health and safety information, such as the need to conduct skin allergy testing (patch test) before using hair color products and how to use and dispose of aerosol products safely, among others.

In fiscal 2008, we added several new consumer health and safety sections to our Web site, including "Ingredients, Containers, and Safety FAQs," which provides answers to common question about products themselves and their ingredients, and "Emergency Treatment," which describes the correct emergency procedures to be followed if products are accidentally ingested or come into contact with someone's eyes, for example.

In the future, we are planning to make more information available on our Web site, such as details about Kao's environmental efforts and our use of resources.

Promoting educational activities

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

In fiscal 2008, the Consumer Communication Center implemented programs emphasizing the importance of dietary education as well as running life and hygiene seminars for people with disabilities, seminars for teachers, and other events introducing our environmental efforts.

TOPICS

Improving *Quickle Wiper Handy*

Quickle Wiper Handy, which was launched in November 2006, is a household duster to which a feather sheet (*Fuwa-fuwa Catcher*) must be attached before using. In response to complaints that the sheets came off during use, in November 2008, we changed the shape of the opening to which the sheet is attached. Following the release of the revamped product we received positive consumer feedback confirming the effectiveness of the improvement.



Web site section sharing product improvements based on consumer feedback

In September 2008, we launched a dedicated new section on our Web site where we describe product improvements that were driven by opinions and requests expressed by our customers.

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

Basic Concept

Establishing close partnerships

Retailers of our consumer products and sales distributors of our chemical and professional-use products are an essential link in the chain between Kao and our consumers/customers, helping us put safe, useful products—along with valuable information—into the hands of people and companies who need them.

Kao actively implements various activities aimed at promoting communication, information exchange and cooperation with our retailers and sales distributors for the purpose of building close partnerships based on trust and facilitating the achievement of our shared prosperity.

Cooperation with Retailers (Consumer Products Business)

Strengthening cooperation among retailers and Kao Group companies

Kao's consumer products are delivered to consumers through its retailers, including supermarkets and drugstores.

Kao Customer Marketing Co., Ltd. (CMK), the company responsible for selling Kao's products, promotes various proposal-oriented sales activities in cooperation with another affiliate company, Kao Merchandising Service Company, Ltd., to strengthen cooperation with retailers. In addition, Kao Customer Marketing provides feedback from retailers to Kao's product development division as part of efforts to promote *Yoki-Monozukuri* throughout the Kao Group, while attempting to contribute to the sales performance of retailers through its sales activities.

Hosting seminars and training sessions for retailers

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

In fiscal 2008, the company held approximately 4,500 of these seminars and training sessions, 3,300 for prestige cosmetics and 1,200 for household products.

Since fiscal 2006, we have also been conducting "10-minute information sessions," which involve Kao's own staff personally visiting individual retailers to provide busy sales personnel with brief product information and quick tips for serving customers.

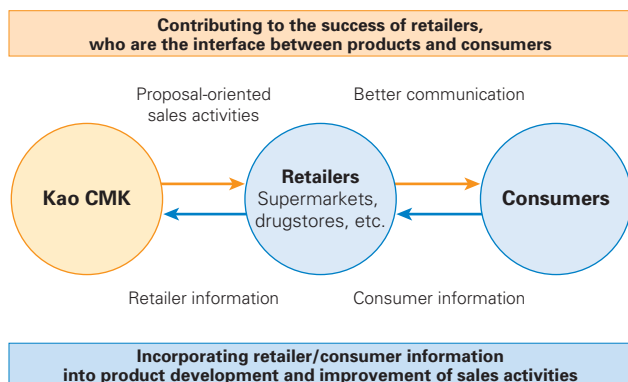
 **Holding a Collaboration Fair to strengthen cooperation with our retailers**

Cooperation with Corporate Customers and Sales Distributors (Chemical Business)

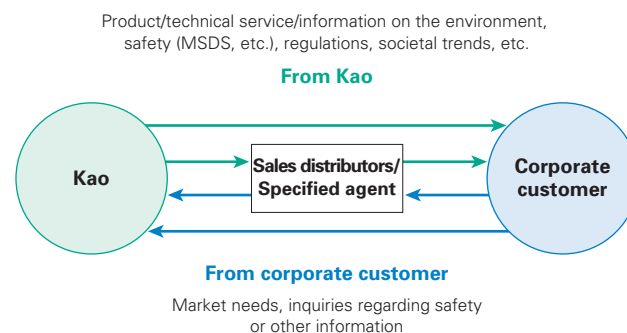
Promoting close communication

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

Collaborative System between Kao CMK and Retailers



Cooperation with Corporate Customers and Sales Distributors



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

As well as making the most of opportunities to strengthen communication such as regular business negotiations and information exchange meetings, Kao also promotes information sharing with our sales distributors using an extranet* that they can access.

In recent years, we have been required to promptly provide corporate customers and sales distributors with information concerning laws and regulations related to products and product safety. We have therefore been focusing our efforts on establishing mechanisms for providing such information and conducting the necessary internal training.

*** Extranet**

A network in which intranets of different companies are interconnected.

TOPICS

Outlining REACH and MSDSplus for sales distributors

The biggest recent challenge for the chemical industry is responding to the EU's REACH*¹ regulation on chemical substances, which came into effect in June 2007.

In May 2008, Kao held explanatory sessions on REACH and JAMP*² MSDSplus for our sales distributors in Osaka and Tokyo at which we gave an outline of REACH and Kao's policies dealing with it. We also highlighted the necessity of transferring information on specific chemical substances contained in products via the MSDSplus and of collecting customer information (customer needs, intended use in exports to the EU, quantities, etc.) to ensure thorough compliance with REACH and requested the full cooperation of our distributors in this regard.

***¹ REACH**

Registration, Evaluation, Authorisation and Restriction of Chemicals, an EU regulation effective from June 1, 2007.

***² JAMP**

The Joint Article Management Promotion consortium. JAMP was established in September 2006 to promote cross-industrial activities for the appropriate management of information on chemical substances contained in articles (parts and molded items) and dissemination of such information throughout supply chains.

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

Supporting customer efforts for hygiene, safety, and environmental management

Kao Professional Services Company, Limited provides cleaning agents and other professional-use products to companies and facilities that need high-level cleaning capabilities and hygiene management, including those in the food service and food processing industries, the dry cleaning industry and hospitals.

In addition, Kao Professional Services conducts thorough assessments of our customers' on-site needs and provides full consulting services concerning hygiene, safety, and environmental management tailored to suit the needs of individual customers. These services include improvement proposals, results verification, and manual preparation, as well as assistance for job training.

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

The food service industry, one of the major buyers of our professional-use products, has recently undergone significant changes in the workplace, such as the increase in around-the-clock operation of stores and the employment of inexperienced part-time and non-regular staff. In response to these changes, ahead of the industry in fiscal 2007, Kao Professional Services established two hotlines to respond to inquiries 24 hours a day, seven days a week.

One of these hotlines is the Kao Customer Support Center, which advises on the proper use of detergents for dishwashers. As of March 2009, the center deals with approximately 400 inquiries a month from restaurants and major food service chains concerning the appropriate handling of detergents and other issues.

The second hotline, the Emergency Medical Consultation Hotline, provides advice on health and safety concerns arising in connection with the use of our detergents. Although the hotline did not receive a single call in fiscal 2008, inquiries are expected to be received in the future as awareness of safety issues among people working in the field increases.

Kao Professional Services is planning additional measures to further clarify the needs of our individual corporate customers and promote the expansion of services, including increasing the number of hotline operators as appropriate.

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

Basic Concept

Respect for diversity and human rights

Kao's Business Conduct Guidelines includes a call to "Respect Employees' Individual Human Rights and Diversity, and Maximize Their Potential."

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

Improving personnel systems and work environments based on employee opinion surveys

Kao conducts an employee opinion survey known as "Find" every two years, targeting all employees of the domestic Kao Group companies. The aim of the survey is to further enhance Kao's organizational culture and identify issues to be solved.

Based on the results, individual divisions draw up their own action plans to ensure that the findings of the survey lead to actual improvement of business processes and productivity. Then, they promote the improvement of work environments and the creation of a supportive corporate culture by implementing these plans. Since fiscal 2007, we have widened the scope of the "Find" survey to include managers of overseas Kao Group companies in an effort to improve various systems and environments from a global perspective.

The last survey, conducted in fiscal 2007 identified the "improvement of communication between and within divisions" and the "improvement of work-life balance" as issues to be addressed.

In fiscal 2008, all companies were made aware of these issues and implemented action plans to solve them. The next survey is scheduled to be conducted in fiscal 2009.

Human Capital Development and Training

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

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

Based on this policy, Kao has made clear the kind

of "Ideal Employees" that we are seeking to help us achieve growth. In line with this, we are providing various opportunities and support for employees to develop their skills and capabilities in accordance with their own level of motivation, individual characteristics, and organizational goals.



- Establishing various training programs to develop our human capital
- Policies on Development and Training of Human Capital
- Making self-study training programs available over the company intranet
- Implementation of the 2nd Asian Leadership Training program
- Implementing the Workshop on The Kao Way
- The Kao Way Recognition
- Opening of Global Techno School

Promoting Dialogue with Employees

Promoting understanding between employees and senior management

To promote understanding between senior management and employees, Kao holds Management-Employee Meetings every year as well as providing a variety of other opportunities for dialogue between employees and management both at home and overseas.

At the Management-Employee Meeting, the President & CEO explains the company's current status, future strategies, priority issues regarding personnel development and the like to representatives of each of Kao's sites and then takes questions. Two of these meetings were held in fiscal 2008, in April and October, at which participants discussed the underlying concepts of a range of personnel systems and measures to support employee health.

In addition, each individual Kao site in Japan holds meetings between workers and management and has an Employee Welfare Committee to facilitate understanding between the two groups.

Dialogue between workers and management is also promoted outside of Japan. In Europe, we established the Kao European Works Council in 1996. Under this system, employee representatives from Kao's European affiliates attend an annual meeting at which senior managers of our European businesses explain the current situation and future management plans and answer any questions that may arise. The fiscal 2008 meeting was held in Rome in May.

In China, mechanisms

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



Management-Employee Meeting

Fair Evaluation and Compensation

Evaluations and compensation based on fairness, objectivity, and employee satisfaction

Kao clearly states the duties, roles, and responsibilities of its employees, and focuses efforts on refining the mechanism for fairly evaluating their capabilities and accomplishments and reflecting the findings in compensation and benefits.

With regard to employee evaluations, we have introduced a system aimed at reinforcing the fairness and objectivity of evaluation results and improving employee satisfaction. Specifically, employees under evaluation meet with their supervisors (evaluators) at the beginning of evaluation periods to discuss and determine the targets for the period. The attainment of targets is then quantified, and employees and supervisors meet again at the end of each period to evaluate the employees' achievements. In addition, to eliminate the potential for unfair evaluations due to subjective standards used by evaluators, employee evaluations are adjusted in various ways within each division. Additionally, we have established a system to further enhance the objectivity of evaluations, including the adoption of the Balanced Score Card as an evaluation tool for employees at the level of manager or higher.

By using evaluation based on roles and achievements as a core system, by flexibly responding to changes in the labor market and employment structure, and by utilizing the results of the employee opinion survey "Find," Kao will continue to conduct fair evaluations of individual employees' capabilities and achievements and will reflect the results equitably in employee compensation. Through this personnel and compensation system, we intend to bring out the best in our employees and keep their enthusiasm and motivation for work at a high level.

Promotion of Diversity and Respect for Individuals

Continuously advancing Equal Partnership

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

In fiscal 2008, as part of the training programs targeting new mid-career hires and newly appointed managers, we held a total of eight lectures concerning the "Need to promote diversity," "Prevention of harassment," "Promotion of a work-life balance," and more, in an effort

to realize a management style that utilizes diversity. The lectures were attended by a total of 221 employees.

In February 2008, we established an EPS Promotion Network to increase employee awareness of EPS and the level of EPS promotion activities. The network is composed of personnel affairs staff at regional sites and Kao Group companies, and staff from the Human Capital Development Division. At meetings that are held twice a year, the status of activities is reported, discussions on awareness-raising are held, and presentations by invited guests are given.



Equal Partnership News Plus

In addition, to promote employees' understanding of EPS promotion activities, in summer and winter we distributed the first two issues of a new in-house newsletter, "Equal Partnership News Plus," to employees of all domestic Kao Group companies. Based on its favorable reception, we plan to release further issues on a regular basis.

Pursuing gender equality

Kao endeavors to actively increase opportunities for women based on the principle that gender should pose no barrier to employees wishing to contribute their best.

In fiscal 2008, the percentage of female managers at Kao Corporation was 4.7%* (and the percentage of female employees was 18.2%), up 0.6 percentage point from the previous year. The percentage of female managers in the entire domestic Kao Group was 5.5% (and the percentage of female employees in the entire domestic Kao Group was 60.9%), and the percentage of female managers in the entire Kao Group including overseas companies was 20.1% (and the percentage of female employees in the entire Kao Group was 54.5%).

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

* Since fiscal 2008, we have altered the definition of managers.



- **Supporting work-life balance**
- **Implementation of the second-stage action plan based on the Law for Measures to Support the Development of the Next Generation**
- **Second official recognition for meeting the requirements of the Law for Measures to Support the Development of the Next Generation**
- **Encouraging male workers to participate in child care**
- **Promoting the employment of people with disabilities**
- **Operating the Senior Partner System for re-employing retired employees**
- **Promoting the creation of a workplace free of discrimination and harassment**

Consideration for Employees' Health and Lifestyle

Formulation of a "Health Declaration"

As part of efforts to create a workplace that provides employees with job satisfaction, Kao Corporation and its domestic affiliates formulated a "Health Declaration" in August 2008 and distributed a pamphlet containing its text to all domestic employees. The purpose of the declaration is to help employees understand Kao's attitude to health promotion and provide them with a guide that can be used in their daily efforts to improve their own health. The declaration includes the following five support measures:



Health Declaration

1. Efforts to address lifestyle-related diseases
2. Efforts to address mental health issues
3. Efforts to support employees wanting to quit smoking
4. Efforts to support employees affected by cancer
5. Efforts to support women's health

Participation rate for the FY 2008 annual health check-up (Kao Corporation and its domestic affiliates)*1

- Number of employees who had a health check-up: 99.7%
- Number of employees who received post-health check follow-up advice*2: 91.7%

*1 Affiliates excluding Kanebo Cosmetics Inc. and its six subsidiaries

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

- Promoting a health program called "KAO Health 2010"
- Promoting efforts to address employees' mental health care
- Controlling long working hours using the Work Management System

Employee Data (domestic)

		FY 2006	FY 2007	FY 2008
Regular employees*1	Female	9,123	11,479	12,086
	Male	9,744	9,884	9,881
Non-regular employees*1	Female	6,161	4,011	3,569
	Male	148	145	162
New employee (regular and non-regular employees)*1	Female	2,199	1,403	1,780
	Male	307	345	329
Employees who took child-care leave*1	Female	355	500	421
	Male	32	66	89
Percentage of female managers (%) *1		4.0	4.5	5.5
Percentage of employees with disabilities (%) *2 As of June 1, 2008	Entire domestic Kao Group	1.64	1.77	1.87
	Kao Corporation Japan only	1.89	1.91	1.90

*1 Calculation based on inclusion of Kao Corporation, Kao Customer Marketing Co., Ltd., Kao-Quaker Co., Ltd., Kao Professional Services Company, Limited, Ehime Sanitary Products Company, Limited, Kanebo Cosmetics Inc., and Kanebo Cosmetics Sales Inc.

*2 Calculation based on inclusion of the nine domestic affiliates that must provide job opportunities for employees with disabilities (Kao Corporation, Kao Customer Marketing Co., Ltd., Kao Merchandising Service Company, Ltd., Kao Professional Services Company, Limited, Kao Logistics Co., Ltd., Ehime Sanitary Products Company, Limited, Kao Shoji Co., Ltd., Kanebo Cosmetics Inc., and Kanebo Cosmetics Sales Inc.) and Kao Peony Co., Ltd.

Occupational Safety, Process Safety and Disaster Prevention

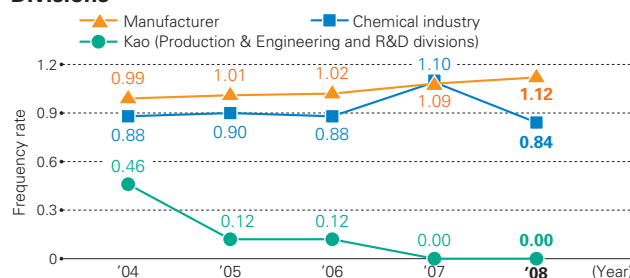
Preventing occupational accidents

When occupational accidents do occur, we analyze the causes and take necessary measures to prevent similar accidents and thereby protect our employees. In addition, Kao provides extensive safety education to both regular and non-regular employees at the general training sessions for new hires and training sessions organized by individual divisions in order to boost the safety awareness of each employee.

Kao has also established a mechanism to keep track of occupational accidents that occur at Kao Group companies overseas through the emergency reporting network. At our plants in Southeast Asia, we use the Environmental & Safety Data Management System ("Kanchan" System) (see page 26), which is adapted for local conditions, and organize statistical data on occupational accidents.

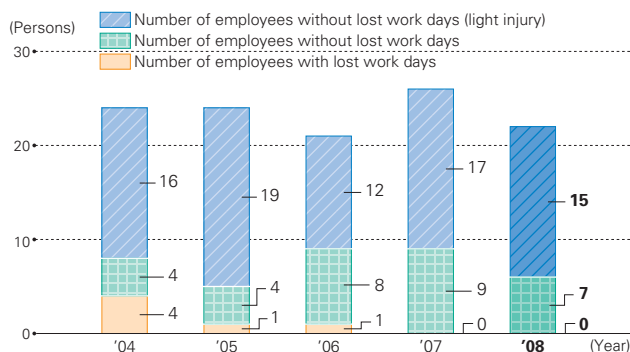
In 2008, we reinforced risk assessment procedures for machinery and operations at our Production & Engineering, R&D, and Logistics divisions. At our Sales Division, we implemented measures to reduce traffic

Changes in the Frequency Rate* of Occupational Accidents in the Production & Engineering and the R&D Divisions



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

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



accidents and promoted the 3Ss, *seiri* ("tidiness"), *seiton* ("order"), and *seiso* ("cleaning").

• Occupational accidents in 2008

The number of employees across the entire Kao Group, including affiliates, in Japan who suffered from occupational accidents in 2008 increased to 154 from 115 in 2007 due to the inclusion of Kanebo Cosmetics Inc. in the scope of the data for the first time in 2008. Without Kanebo Cosmetics, the number who suffered from occupational accidents was 95—lower than the previous year. The number of employees suffering injuries resulting in lost work days decreased to 26 (16, without Kanebo Cosmetics) in 2008 from 29 in 2007.

By category, the number of accidents in which a person fell, cut or grazed some part of their body (including cuts and grazes from glass or a box cutter) during freight handling in the distribution business decreased, while the percentage of traffic accidents, falls, cuts and grazes in the sales business increased.

The number of employees who suffered from occupational accidents in the Production & Engineering and the R&D divisions decreased from 26 in 2007 to 22 in 2008. In the R&D Division, accidents in which victims suffered from glass cuts or were caught or stuck in machinery increased, and in the Production & Engineering Division, one accident in which a victim was caught in a piece of machinery occurred. The number of employees who suffered injuries resulting in lost work days was zero, as in 2007.

We will continue to implement measures to reduce traffic accidents and to conduct enhanced risk assessments and other activities to reduce remaining risks, including at Kanebo Cosmetics.

Drills for large-scale disasters

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

In November 2008, Kao conducted a company-wide emergency reporting training exercise for a hypothetical earthquake with a magnitude of eight on the Richter scale. As part of the training, we confirmed a series of responses, including initial tasks to be carried at the

afflicted area, reporting to Head Office, establishing an emergency headquarters, and reporting between the emergency headquarters and regional emergency offices of individual divisions. For the exercise, in addition to satellite-based mobile phones and bulletin boards, we trialed a teleconference system as a means of corresponding between the emergency headquarters and regional emergency offices. This teleconference system proved effective for two-way communications and information sharing, and we are now planning to officially introduce and use it in the future.

In addition, the domestic Kao Group implements an exercise for employees to practice inputting their personal safety status into the safety confirmation system every year as part of preparations for a large-scale earthquake or other disaster. In 2008, we conducted the exercise for five days starting September 1, Japan's national Disaster Prevention Day. A total of 25,973 persons, or 91% of those targeted by the exercise (up from 88% in the previous year), successfully input their status.

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

TOPICS

Kao's domestic and overseas plants receive safety awards

Three Kao Group plants have recently been commended by supervisory authorities.

In July 2008, Tochigi Plant received the Award for Efforts, given by the Japanese Ministry of Health, Labour and Welfare to workplaces and organizations that have achieved remarkable standards or rendered distinguished service in industrial safety and health. Tochigi Plant was recognized for achieving a record period of no accidents resulting in lost work days of five years and 10 months (as of July 2008) as a result of its continuous implementation of risk assessments and provision of safety education, conducted under the motto, "From no disasters to no hazards."

In December 2008, Kao (Taiwan) Corporation's plant in Hsinchu, which mainly produces consumer products such as laundry detergents and shampoos, was granted the "Five Star Award," the highest honor for outstanding occupational safety and health management of the Taiwanese Council of Labor Affairs, Executive Yuan, for its achievement of a record period of no accidents resulting in lost work days of three years and five months (as of December 2008) and its activities to strengthen the construction work safety system and establish and improve mechanisms for occupational safety and health. Hsinchu Plant obtained the OHSAS 18001, an international standard for occupational safety and health management, in 2001.

In March 2009, Kao Specialties Americas LLC (KSA) received the Excellence Achievement Award from the U.S. National Safety Council for achieving less than half of the industry average for the number of workers who missed work days due to accident or injury. In the case of KSA, the number for 2007 was zero.

Occurrence of small fires

While the Kao Group had no serious accidents in 2008, there were two small fires at domestic facilities. In June, there was a small fire at a company dormitory of Tochigi Plant when the boiler caught fire because of grease buildup in the smoke duct. In September, there was a small fire at Wakayama Plant when long scraps that had accumulated inside the incinerator near the door caught fire, causing flames to escape. These fires caused no injuries.

In response to these two fires, Kao inspected similar facilities and equipment and confirmed that there were no abnormalities. We will continue to thoroughly oversee the regular inspection and maintenance of equipment.

In accordance with our Guidelines for Procurement of Raw Materials and Equipment, Kao promotes procurement activities based on our basic policies of fairness, compliance/ethics, and social responsibility.


Basic Concept

Establishing a collaborative system with suppliers

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

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

* In fiscal 2008, Kao's Guidelines for Procurement of Raw Materials was renamed "Guidelines for Procurement of Raw Materials and Equipment" to extend the scope of our procurement goals to equipment suppliers.

 **Guidelines for Procurement of Raw Materials and Equipment**

CSR Procurement

Expanding the scope of examinations and evaluations of suppliers

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 environmental management systems (EMS).

To promote CSR procurement from domestic and overseas suppliers, Kao revised the Green Procurement Standards in January 2007, and renamed them "CSR Procurement Standards." Based on the revised standards, we examine and evaluate our suppliers not only in environmental, but also social terms, including compliance with laws and social norms and approaches taken to labor and human rights issues. Since fiscal 2008, we have expanded the scope of environmental examinations and evaluations to include domestic equipment suppliers.

The results of examinations and evaluations of our domestic and overseas suppliers in fiscal 2008 are shown

Results of investigations of efforts made by our suppliers to meet their social responsibilities

	Number of suppliers of Kao Corporation	Number of suppliers of the Asian Kao Group	Percentage of companies that met Kao's CSR Procurement Standards*
Up to FY 2007	580	288	97%
FY 2008	345	68	97%

* The achievement rate is calculated on a consolidated basis encompassing Kao Corporation and its Asian group companies for the respective fiscal years.

in the tables below. Significant progress has also been made in our examinations of suppliers to Kao Group companies in Asia, which we began in 2007.

When suppliers and their plants do not meet our standards, we visit them to request improvements and implement measures to assist them to establish appropriate systems and upgrade their operations. We are also planning to conduct audits in the future and are currently considering auditing methods.

Fair and Ethical Transactions

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

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

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

 **Implementation of a supplier satisfaction survey**
 **Implementation of internal education programs on the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors**

Cooperation with Suppliers

Holding supplier meetings

In fiscal 2008, we held a supplier meeting that was attended by 216 persons from 178 companies that supply Kao with raw materials, packaging materials, equipment and other items. At this meeting, we explained our Guidelines for Procurement of Raw Materials and Equipment and attempted to share our views and provide relevant information in relation to the themes of CSR procurement, backup systems for large-scale earthquakes, response to the carbon footprint system, and novel influenza.

 **Holding quality improvement meetings**

Results of investigations of efforts made by individual plants of our suppliers to meet their environmental responsibilities

	Number of plants of Kao Corporation's suppliers	Number of plants of the Asian Kao Group's suppliers	Percentage of plants that met Kao's CSR Procurement Standards*
Up to FY 2007	751	172	98%
FY 2008	496	43	96%

* The achievement rate is calculated on a consolidated basis encompassing Kao Corporation and its Asian group companies for the respective fiscal years.

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

Basic Concept

Aiming 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 considering shareholders returns as an important priority.

Basic Policies on Distribution of Profits

The importance of providing shareholders with steady dividends

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

We increased the annual cash dividend for the fiscal year ended March 2009 from the previous fiscal year by 2 yen per share to 56 yen per share. This marked the 19th consecutive increase of our annual dividend payment. The consolidated dividend payout ratio* came to 46.6%.

* 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 annual and quarterly business results reports 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.

In fiscal 2008, we received inquiries concerning the content of financial results and the procedures involved in the introduction of the electronic share certificate system (paperless share certificate system). Inquires from institutional investors included questions on corporate governance.

We intend to make further improvements with

regard to our IR activities, focusing on the three aspects of messages from senior management, dialogue with institutional investors, and IR activities for individual investors.

Activating Shareholder 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 have introduced an electronic voting system for the regular Annual General Meeting of Shareholders.

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 as well as the Japanese original available to them on our Web site at the time the Japanese convocation notice is sent out. We also post presentation information at the Meeting and summary of resolutions 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 2008 was attended by 599 shareholders. In addition to inquiries about the agenda items, we received various comments and inquiries concerning such topics as Kao's overseas business development and environmental issues, and escalating materials prices, which made for a lively meeting.

Implementation of dialogue with shareholders and individual investors

Kao strives to promote two-way communication with shareholders and investors.

In fiscal 2008, we conducted Kao Museum tours for shareholders in September and November, with approximately 200 people taking part.

In February 2009, Kao participated in a forum for individual investors sponsored by a securities company. Following a presentation by Kao's President & CEO, there was a question and answer session for participants.

Major global SRI indexes include Kao

Kao has been repeatedly selected for several SRI indexes, including the FTSE4 Good Global Index, a leading socially responsible investment index that was developed by the UK-based FTSE Group.

In September 2008, Kao was selected for the first time for the Dow Jones Sustainability World Index (DJSI World).



• Overview of IR Activities

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

Basic Concept

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

Since fiscal 2000, Kao has been utilizing its management resources to conduct systematic activities under the unified theme of “Nurturing the Next Generation.”

In fiscal 2007, Kao focused on the more specific theme of “Creating an Environment and Developing Human Resources to Nurture the Next Generation.” Under the theme, Kao has been promoting domestic and overseas activities to achieve co-existence and co-prosperity with communities in the three priority areas of the environment, education, and the arts.

 • **Kao's Guidelines for Community and Cultural Activities**

Environmental Activities

Kao Creating Forests For Everyone program

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

Under the program, which is administered jointly by Kao and the Urban Green Space Development Foundation, part of sales (an amount of up to 30 million yen per year) of refill products such as shampoos and detergents is given as grants to NPOs and citizens' organizations engaged in the

protection and expansion of local green areas.

As of fiscal 2008, Kao has supported 307 organizations, involving a total of approximately 131,000 citizens. As part of forest conservation and management, these organizations have thinned trees and planted roughly 90,000 seedlings. As a result, an area of about 2,634 hectares of forest has been maintained, with these trees absorbing the equivalent of 2,572 tons of CO₂ emissions in total.

Educational Activities

Kao Earthwatch Teachers' Fellowship

Since fiscal 2003, Kao has been implementing a program for elementary and junior high school teachers known as the Kao Earthwatch Teachers' Fellowship in cooperation with nonprofit organization Earthwatch Japan.

This volunteer program provides teachers with opportunities to go overseas during the summer vacation period to work with local researchers on projects aimed at preserving biodiversity. When they return, they can incorporate their experiences into environmental education activities they conduct with their students.



Kao Earthwatch Teachers' Fellowship

In fiscal 2008, we organized five projects in Canada and the United States, including Alaska, in which a total of 10 teachers participated. Since the beginning of the program, we have conducted 20 projects for 59 teachers.

 • **Holding science experiment classes**
• **Encouraging girls to pursue careers in science and technology**

Overview of Kao's Corporate Citizenship Activities

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

Environmental conservation

- Kao Creating Forests for Everyone
- Supporting the “Creating Forests for Everyone” Project

Education

- Kao Earthwatch Teachers' Fellowship
- Supporting science education

Arts

- Kao Community Museum Program
- Kao Family Concerts
- Tokyo Music Competition
- Corporate support for the arts

Employee participation activities

- Heart Pocket Club
- Pink Ribbon Campaign
- Volunteer collection of unused postcards and so on for donation

Support for the community

- Supporting the operation of the Sumiya Wasa Welfare Factory
- Donation of products to welfare facilities
- Promotion of barrier-free society
- Plant tours

Kao Foundation for Arts and Science

Arts and Cultural Activities

Kao Community Museum Program

Since 2007, the Kao Community Museum Program has provided aid to citizens' groups that conduct museum-related activities.

By funding various civil activities related to museums around the country, the program not only contributes to the development of community civil life and regional culture but also to the revitalization of the museums themselves. In addition, the program also supports exchanges between citizens' groups.

 • **Holding Kao Family Concerts**
• **Supporting the fine arts, music and other artistic and cultural endeavors as well as scientific and technological research**

Employee Participation Activities

The Million-Person Pink Ribbon Campaign

The Million-Person Pink Ribbon Campaign is a social contribution project jointly implemented by Kao Corporation, Kao Customer Marketing Co., Ltd., Kanebo Cosmetics Inc., and Kanebo Cosmetics Sales, Inc. since 2007.

This is an awareness-raising campaign aimed at informing as many women as possible about the benefits of early breast cancer detection and providing them with accurate information about the disease in the form of leaflets distributed to customers by pink-ribbon-wearing in-store beauty advisers/counselors for Kao's brands *Sofina* and *est* and Kanebo Cosmetics.

The leaflets were prepared in the reception



Awareness-raising campaign in action at a store

areas of individual Kao offices to provide more opportunities to raise awareness. In addition, both Kao and Kanebo Cosmetics have invited guest speakers to address employees to raise awareness within the company.



• Supporting employee-organized charities

Activities toward the Creation of Better Communities

Plant tours

Kao conducts plant tours at all plants of domestic Kao Group companies. In fiscal 2008, a total of about 38,000 people, including neighboring residents, elementary school children, junior high and high school students, university students, and members of various citizens'



Scientific experiment demonstration

groups, participated in tours of eight of our plants.

As well as showing participants how Kao's products are manufactured, tours include demonstrations of scientific experiments to get students interested in science and technology.



• Promoting activities to achieve a barrier-free society
• Plant tours for people with disabilities

Disaster Relief Activities

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

In 2007, we established Global Donation Guidelines to regulate 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 by local government authorities
2. In other countries, disasters that occur in the countries and regions where Kao Group companies are located, and for which assistance is needed
3. Large-scale disasters that occur in the rest of the world

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

Corporate Citizenship Activities in Other Countries

Supporting the Forests for the Future Project in Thailand

Forests for the Future Project is a children's tree-planting program co-sponsored by the Foundation for Global Peace and Environment (FGPE) and the United Nations Environment Programme (UNEP) aimed at preserving forests around the world. The project started in Tibet in 2001.

The Thai project was launched in November 2007 to commemorate the 120th Anniversary of Japanese-Thai Diplomatic Relations with the goal of planting 500,000 trees in five years. Thirty employee groups from Kao Group companies in Thailand participated in the project as volunteers.



- Conducting chemistry experiment classes for elementary school students at Pilipinas Kao
- Supporting an Indonesian cultural exchange program
- Supporting a career program for female students in Germany

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

Kao's Products and their Environmental Impacts

Aiming to simultaneously expand business and reduce environmental impacts

Kao uses vegetable oils and fats as well as fossil resources as the main raw materials for its products. Moreover, energy is consumed during every phase of each product's life cycle, from manufacture and transport to use and disposal. All of this places burdens on the environment. Having recognized this fact, Kao strives to use resources effectively throughout the entire life cycle of each of its products. It also seeks further resource and energy conservation through the pursuit of new technologies.

As companies that handle chemical substances, it is necessary for us to promote environmental activities based on the recognition of the impacts of our business operations and chemicals on both the human body and the ecological system throughout the entire life cycles of our products. Under a rigorous chemical substance management system, Kao is promoting product development and production activities that have the least possible impact on the environment, in line with the group's dual aim of expanding business while reducing environmental impacts.

Up until fiscal 2008, Kao has been focusing its environmental activities on the four priority areas shown below. From fiscal 2009 onward, we are planning to step up our efforts.

1. Reduction of GHG emissions

To reduce CO₂ and other greenhouse gas (GHG) emissions from its production and transport operations, Kao is addressing all the processes that form part of our business activities, from research and development to sales. In addition, we are striving for a reduction of GHG emissions at our facilities, such as offices, training centers and dormitories.

Moreover, we have made comparisons of phase-by-phase CO₂ emissions during product life cycles. The comparisons revealed that CO₂ emissions were greater during the product use phase than during production or transport. With this knowledge, we are working to develop products that will generate less CO₂ emissions during the use phase.

2. Chemical substances management

We undertake the appropriate management of chemical substances subject to the PRTR Law and volatile organic compounds (VOC) under our own Comprehensive Management System for Chemical Substances and Environmental & Safety Data Management System ("Kanchan" System).

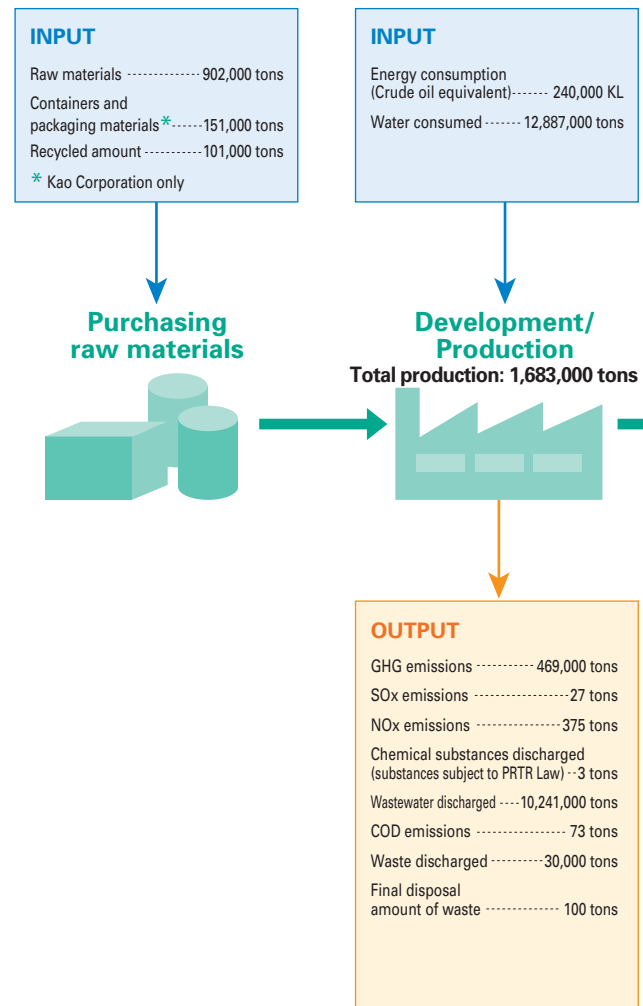
3. Reduction of industrial waste

By reducing the by-products and waste materials generated in production and utilizing them effectively as resources wherever possible, we have reduced the amount of waste finally disposed of. In fiscal 2008, Kao introduced a new and more rigorous definition of "zero emissions" namely, to "control annual final disposal amount at 0.2% or less of waste generation" (previously 0.5% or less).

4. 3Rs for containers and packaging materials

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

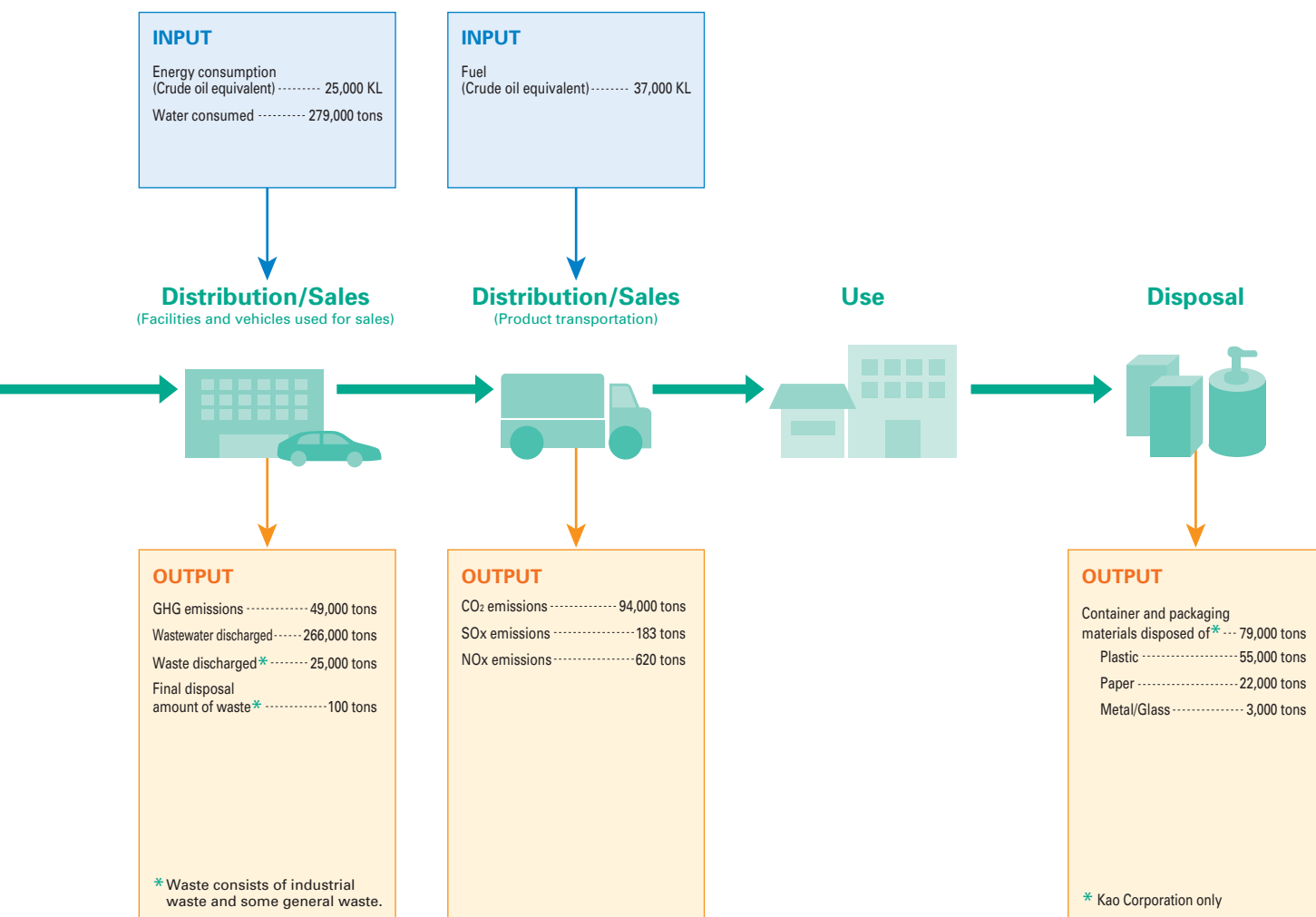
FY 2008 Business Operations and Environmental Impact



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

INPUT

- **Raw materials:**
The amount of raw materials directly used to manufacture products (excluding containers and packaging materials and fuel)
- **Containers and packaging materials:**
Total amount of cardboard, containers and packaging materials used for products sold
- **Recycled amount:**
Of the waste generated from production and research activities, the amount that is recycled within Kao
- **Energy consumption (Development and production):**
Amount of energy consumed at production sites



- **Water consumed:**
Total amount of industrial water, public water and well water consumed
- **Energy consumption (Distribution and sales [facilities and vehicles]):**
Amount of energy consumed by distribution and sales offices, and by vehicles used for sales activities
- **Energy consumption (Distribution and sales [product transportation]):**
Amount of energy consumed during the transportation of consumer products, chemical products, raw materials, etc.

OUTPUT

- **GHG emissions:**
Amount (CO₂ equivalent) of greenhouse gas (defined as the six gases specified in the Kyoto Protocol) emissions generated from business activities
- **SO_x emissions:**
Total amount of SO_x emissions from smoke- and soot-emitting facilities

- **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 discharged:**
Total quantity of wastewater discharged from production plants, distribution and sales offices, and other facilities
- **COD emissions:**
Figure obtained by multiplying the amount of wastewater by COD concentrations in the wastewater
- **Waste discharged and final disposal amount of waste:**
Amount of waste from production sites, distribution and sales offices, and other facilities that is sold or entrusted as waste or recyclable materials to waste treatment companies, and the amount of waste put for final disposal
- **Containers and packaging materials disposed of:**
Total amount of containers and packaging materials (excluding cardboard) used for products sold

Kao is addressing six priority objectives, including energy conservation and global warming prevention, to achieve our environmental activity targets.

Fiscal 2008 Results and Targets for the Future

Some newly introduced targets with wider coverage unrealized

In fiscal 2008, Kao failed to achieve the targets of four priority objectives: two new objectives concerning the reduction of transportation fuel consumption and reduction of greenhouse gas emissions from non-production sites; CSR procurement with a wider scope of assessment; and

reduction of emissions of chemical substances subject to the PRTR Law. By analyzing the current issues and taking appropriate measures, Kao is striving to achieve numerical targets for these policy objectives for fiscal 2009.

Meanwhile, Kao has for several years achieved the targets for energy conservation and GHG emissions in the basic unit index at production sites, as well as VOC substances discharged. For these policy objectives, we will establish more challenging targets to further reduce environmental impacts.

 **Data on environmental impacts by plant (domestic and overseas)**

Environmental Activity Targets and Results

Priority objective	Relevant division	FY 2008 targets	FY 2008 results* ¹		FY 2009 targets	FY 2010 targets
Energy conservation	Production sites	Maintain energy consumption for production activities at 74 in the basic unit index* ²	Achieved	64	Reduce total energy consumption to 63* ³ in the basic unit index	Reduce total energy consumption to 62* ³ in the basic unit index
		Steadily implement energy conservation activities	Achieved	Promoted 210 improvements in operating methods and enhancements of efficiency in facilities and equipment	—	—
	Other than production sites	Reduce energy consumption by 1% (from FY 2007)	Achieved	Reduced by 4%	Reduce energy consumption by 1% (from FY 2008)	Reduce energy consumption by 3% (from FY 2007)
Reduction of transportation fuel consumption	Production & Engineering Division, Logistics Division and Chemicals	Reduce consumption of transportation fuel by 1% (from FY 2007) in the basic unit* ⁴	Not achieved	Reduced by 0.1%	Reduce transportation energy by 1% (from FY 2008) in the basic unit	Reduce transportation energy consumption by 4% (from FY 2006) in the basic unit
Global warming prevention	Production sites	Maintain GHG emissions* ⁵ in the basic unit index at 67	Achieved	61	Reduce GHG emissions to 57* ³ in the basic unit index	Reduce GHG emissions to 56* ³ in the basic unit index
		Promote further energy conservation and fuel conversion	Achieved	Promoted 210 improvements in operating methods and enhancements of efficiencies in facilities and equipment	—	—
	Other than production sites	Reduce GHG emissions by 1% (from FY 2007)	Not achieved	Increased by 1%	Reduce GHG emissions by 1% (from FY 2008)	Reduce GHG emissions by 3% (from FY 2007)
Reduction of chemical substances discharged	Production sites	Maintain emissions of each chemical from respective plants at 1 ton or less	Not achieved	1.5 tons of toluene discharged by Ehime Sanitary Products Company, Limited	Maintain emissions of each chemical from respective plants at 1 ton or less	Maintain emissions of each chemical from respective plants at 1 ton or less
VOC* ⁶ substances		Maintain emissions of each chemical from respective plants at 5 tons or less	Achieved	Maximum emissions were 3 tons (ethanol)	Reduce emissions of each chemical from respective plants to 3 tons or less	Reduce emissions of each chemical from respective plants to 1 ton or less
Waste material reduction	Production sites	Reduce final disposal rate to 0.2% or less at all plants	Achieved	0.08%	Maintain the final disposal rate at 0.2% or less at all plants	Reduce total of the final disposal amounts from all plants to 150 tons or less; and reduce the final disposal rate of all plants combined to 0.1% or less
		Reduce waste generation per unit production by 0.5% (from FY 2007)	Achieved	Reduced by 1.4%	Reduce waste generation per unit production by 0.5% (from FY 2008)	Reduce waste generation per unit production by 0.5% (from FY 2009)
CSR procurement* ⁷	Kao	98% or higher (Green procurement ratio)	Not achieved	96%	99% or higher	100%

*¹ FY 2008 results: Includes all of the results of Kanebo Cosmetics Inc., except those of reduction of transportation fuel consumption and CSR procurement.

*² Basic unit index: Amount per unit of value-added production output. Under the index, the fiscal 1990 value is defined as 100. "Value-added production output" is the amount that can be obtained by deducting the variable manufacturing cost from the production output on the basis of selling price.

*³ More rigorous numerical targets were set in fiscal 2008.

*⁴ Transportation fuel consumption in the basic unit: Transportation fuel consumption per unit of volume of sales.

*⁵ GHG (greenhouse gas) emissions: CO₂ equivalent emissions of six greenhouse gases specified in the Kyoto Protocol.

*⁶ VOC: Abbreviation of volatile organic compounds. Kao defines the 100 substances listed in the Exhibit 1 of the Notice of the Director-General, Environmental Management Bureau, Ministry of the Environment, Japan (June 17, 2005) as VOC.

*⁷ CSR procurement: Giving preference to suppliers that consider their responsibilities to the environment and society, and preferentially selecting products with lower environmental impacts (green products), when purchasing goods necessary for production activities. For CSR procurement, a ratio of supplier factories that have been found to be operating EMSs by environmental protection assessments is referred to as a "green procurement ratio." Kao began assessing equipment suppliers in fiscal 2008.

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

Efforts for Global Warming Prevention in Business Activities

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

The Kao Group has undertaken a variety of initiatives to use less energy during production processes. For example, we have introduced energy-saving equipment, streamlined manufacturing processes and developed energy-efficient processes in an effort to reduce CO₂ emissions.

As part of these measures, Kao has been promoting the switch from absorption chillers that use steam or hot water created by burning fossil fuel to high-efficient turbo refrigerators, powered by electricity, which exhibits better COP (coefficient of performance) and emits less CO₂. In fiscal 2008, chillers at Wakayama, Tochigi and Kashima plants were replaced with turbo refrigerators.

These efforts resulted in a reduction of total energy consumption of 11,000 kl in crude oil equivalent from the previous year. In terms of energy consumption in the basic unit index, this represents a 0.7 point improvement on a year-on-year basis.

Actively promoting fuel conversion to natural gas

Kao began efforts to move from heavy oil to natural gas ahead of many of its peers in the chemicals industry, introducing natural gas first at Kawasaki Plant in 1979 and since then promoting its introduction at other plants. We have now completely converted to natural gas at all domestic and overseas plants located in areas where the necessary infrastructure is in place.

GHG emissions in the basic unit index deteriorated

To reduce GHG emissions, we limit our own power generation using heavy fuel oil, using instead electricity with

lower CO₂ emissions purchased from external sources.

In fiscal 2008, the amount of electricity purchased from external suppliers dropped by 98 million kWh from the previous year. However, the CO₂ conversion factor of the externally purchased electricity worsened from the previous year, and GHG emissions from the externally purchased electricity increased by 14,000 tons, compared with the previous year. Although GHG emissions from the use of fossil fuel decreased 24,000 tons on a year-on-year basis, GHG emissions as measured by the basic unit index deteriorated by 0.9 points.

Beginning efforts for GHG emissions trading

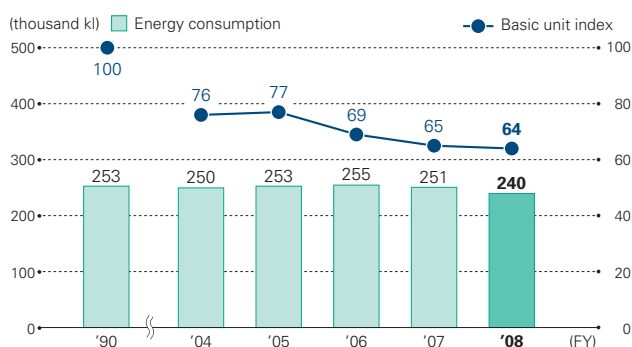
The EU launched the Emissions Trading Scheme (EU-ETS) in 2005. Since then, Kao Corporation S.A. (Spain) has been under the regulatory control of the Spanish government with regard to GHG emissions, as it owns facilities subject to the EU-ETS rules. The company has been striving to reduce its emissions in accordance with the scheme.

In 2008, the first year of the second period of the scheme, Kao Corporation S.A. (Spain) continued promoting energy conservation activities. As a result of the successful operation of the facilities without exceeding the regulatory standards, the company was not obliged to trade the amount of emission cuts.

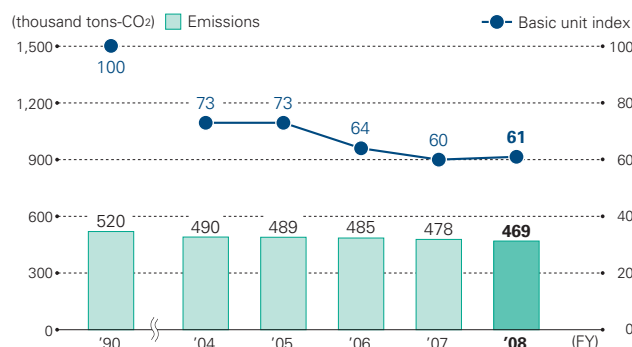
Moreover, in December 2008, Kao Corporation took part in the Experimental Introduction of an Integrated Domestic Market for Emissions Trading led by the Japanese government's Global Warming Prevention Headquarters.

In line with its voluntary action plan, Kao set goals for energy used in production (energy that actually contributed to production) at its eight domestic plants. Kao will continue to endeavor to achieve its goals.

Changes in Energy Consumption (Production Sites)



Changes in GHG Emissions (Production Sites)



*With the consolidation of Niko Seishi Co., Ltd. into the group in fiscal 2008, data back to fiscal 1990 were modified. Since fiscal 2006, Kanebo Cosmetics Inc. has been included.

Reduction of the environmental impact in distribution

In 2005, Kao was selected to be among the first companies given the Eco Rail Mark certification. The mark identifies products and companies that proactively tackle global environmental problems by using rail freight transportation. Since then, Kao has made active efforts to propel modal shift. We have raised the modal shift rate since we began actively addressing the issue in fiscal 2003, and recorded 64% in fiscal 2008, while the average modal shift rate in Japan is around 40%. Where we do use trucks, we are improving transport efficiency by introducing larger shipment containers and managing our loading system in conjunction with a product demand forecast system.

Kao Logistics Co., Ltd. has provided its staff with environment-friendly driving education, using visual images and driving data recorded by drive recorders. In addition, hybrid cars and eco-tires are being steadily introduced. These efforts resulted in a 10% improvement in fuel efficiency in fiscal 2008 over fiscal 2006, before the measures were put in place.

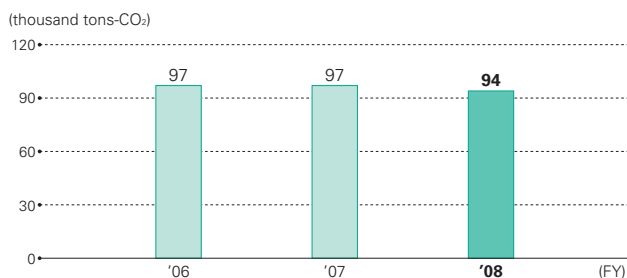
Despite these endeavors, transportation fuel consumption in the basic unit improved merely 0.1% from fiscal 2007 and we failed to achieve the reduction target of 1%. We take this result seriously and are striving for further improvements in transport efficiency.

Promoting energy-saving activities at offices

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

In addition to the Cool-biz and Warm-biz campaigns implemented from 2005, Kao, in October 2008, set all its computers connected to the network in Japan to an energy-saving mode*. In place of OA machines that consume electricity at a high rate, we introduced latest-model multi-functional copiers to serve as printer, copier and facsimile in order to reduce electricity and paper consumption. In fiscal 2008, all of the OA machines at Kayabacho Office and some of the machines at Sumida Complex were replaced with multi-functional machines.

Changes in CO₂ Emissions from Transportation



*Kanebo Cosmetics' data is included.

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

Furthermore, we are continuing to make steady efforts to conserve energy, such as laying out fluorescent lighting appropriately, introducing "no overtime days" to save electricity, and reducing electricity consumption at offices. We are also educating employees to raise awareness and participation.

As a result of these efforts, electricity consumption at offices in fiscal 2008 decreased by 1,894,000 kWh (approx. 10.4%) from fiscal 2004, before we began these activities. This represents a reduction of 578 kl in crude oil equivalent or 872 tons in CO₂.

*Energy-saving mode

When a machine is not used for 15 minutes, the display, hard disk and other components power down automatically.

Implementing the Kao Group Eco Family Program

In the fight against global warming, efforts made by companies alone will not suffice. Each individual must take action as well. With this in mind, Kao launched the Kao Group Eco Family Program in June 2008 to encourage employees of the Kao Group to keep environmental household accounts as a way of raising environmental awareness among employees and their families and helping them to reduce their household GHG emissions.

To operate the program, Kao participated in the "Minister of the Environment at Your Home" project organized by the Japanese Ministry of the Environment, held explanatory meetings, and helped our employees to get started.

Speedier shift to sustainable and renewable resources

Kao uses both vegetable oils and fats and fossil resources as raw materials for its products. However, Kao is trying to curb the use of exhaustible fossil resources as much as possible. In fiscal 2008, we substituted a fossil resource used as one of the main raw materials in dishwashing detergent *CuCute* with a combination of vegetable oil and fat. By using this carbon neutral* combination, CO₂ emissions for the entire product life cycle of *CuCute* achieved a 3% improvement (CO₂ emissions from decomposition after use achieved a 57% improvement).

* Carbon neutral

Based on the concept of the carbon cycle. When plant matter is burned, CO₂ is released just as when fossil fuel is burned. However, plants absorb carbon dioxide during photosynthesis as part of their growth process, and thus the amount of carbon released and the amount of carbon absorbed will even out to zero.

 **Joint delivery implemented in conjunction with Kanebo Cosmetics**

Kao strives to develop environmentally conscious products and packaging through life cycle assessment of our products' impact and burden on the environment.

Environmental Consideration in Products

Pursuing better performance and lower environmental impact

Based on its product development guideline that aims to ensure the safety and high quality of products and reduce environmental impacts, Kao implements Life Cycle Assessments (LCA) to make sure the products that get to market and their related technologies are environmentally friendly. Under the LCA procedures, the environmental impacts and burdens of a product are reviewed for the product's entire life cycle, from the obtaining of raw materials to the design, manufacture, transportation, use and disposal.

In order to promote LCA-based product development, Kao has developed its own Standards of Product Design for Environment, and conducts qualitative and quantitative assessment and analysis on a variety of environmental and safety concerns in accordance with them.

Moreover, in fiscal 2008, we introduced a new index, the Environmental Impact Improvement Rate, to assess more accurately environmental impacts throughout product life cycles and to make clear the rate of improvement. By using this index we compare and evaluate CO₂ emissions of current "Standard Products" and those of new "Developed Products."

Improving a plant-based plastic for easier use

• Development of modified polylactide resin *ECOLA*

Polylactide resin is a plant-based plastic that can be produced without increasing overall emissions of CO₂, meaning it is carbon neutral. To make it easier to use, Kao is engaged in property modification research, using proprietary crystal-control and softening technologies. One of the achievements so far has been the development of modified polylactide resin *ECOLA*. Having realized performance and workability comparable to conventional petroleum-based resins, *ECOLA* can be used for sheet products by extrusion molding and a wide range of plastic products by injection molding.

3Rs for Containers and Packaging Materials

Actively promoting the 3Rs

Containers and packaging materials are a necessary component of products until such time as their contents are used up. They have important functions, such as enabling the provision of information and instructions for use, protecting the contents and preserving the quality of the products during transportation.

While directing research and development toward

creating containers and packaging materials that fulfill these roles using minimal resources, Kao is actively promoting the reuse of used containers and incorporating recycled materials as part of its 3R activities. We are also working to develop new containers for refill products, incorporating a universal design concept to help consumers—who sometimes experience difficulties when refilling a container from a refill pouch—to do so easily.

In fiscal 2008, container and packaging material consumption was reduced by 4,300 tons from the previous year, owing to a greater use of resource-saving cardboards.

• 3Rs for containers and packaging materials

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

Changes in Containers and Packaging Materials Used

(Unit: tons)

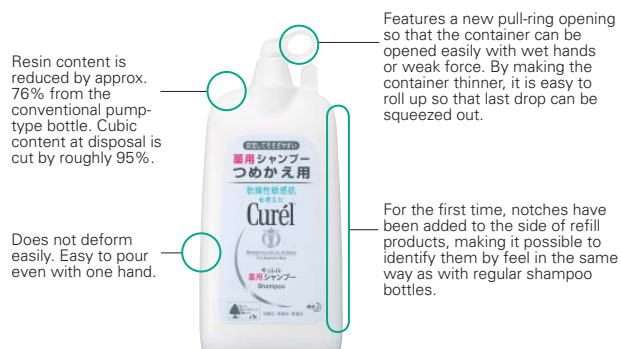
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Plastic	49,000	49,200	55,700	55,700	55,000
Paper	25,800	26,100	25,600	22,500	21,600
Cardboard	64,300	65,600	67,700	73,700	71,700
Others	3,600	3,800	3,600	3,400	2,700
Total	142,700	144,700	152,600	155,300	151,000

* The scope of data covers Kao Corporation only.

Giving consideration to the environment and convenience with easily refillable containers

• Development of a new container for *Curel*

Kao developed an ultrathin molding technique that enables us to mold a bottle container that keeps its shape thanks to a unique spatial structure, while reducing its thickness to roughly half of conventional thicknesses. We used this new technique for refill containers for *Curel*, Kao's line of skincare products for sensitive skin. In September 2008, Kao released *Curel* medicated shampoo and conditioner refills.



-  • **Reduction of resin used for containers**
 • **Reduction of product packaging materials used during transportation**
 • **FY 2008 Commendations for environmental research and technologies**

Kao endeavors to reduce and manage the emissions of chemical substances in accordance with its own chemical substance management system and CSR Procurement Standards.

Management of Chemical Substances

Enforcing integrated chemical substance management from raw materials to finished products

Kao is implementing an integrated chemical substance management system, using our own Comprehensive Management System for Chemical Substances (see page 29). Under this system, chemical substances are classified into four ranked categories: "prohibited chemical substances," "restricted-use chemical substances," "chemical substances requiring careful handling" and "other substances."

Reducing emissions of chemical substances subject to the PRTR* Law

Of all the chemical substances handled by Kao in fiscal 2008, 52 were subject to the PRTR Law.

In fiscal 2008, our target for these chemical substances was to "maintain emissions of each chemical substance from respective plants at 1 ton or less." However, an exhaust constituent analysis conducted at Ehime Sanitary Products Company, Limited in November 2008 found that 1.5 tons of toluene had been discharged into the air due to a leak at the exhaust gas treatment facilities, resulting in our failure to achieve the target. The company repaired the facilities immediately and took measures to prevent a recurrence of such incidents by increasing the frequency of periodic maintenance.

The total discharge of substances subject to the PRTR Law into the air and water in fiscal 2008 were 3 tons, including the emissions above.

*PRTR

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

Managing VOC emissions based on voluntary activity goals

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

In fiscal 2008, we designated 100 VOC substances and set the goal of "maintaining emissions of each substance from respective plants at 5 tons or less per year," which we achieved. However, the total discharge into the air increased by 1 ton from 13 tons in fiscal 2007 to 14 tons.

Kao will reduce VOC emissions through more rigorous measures aimed at cutting VOC consumption and VOC removal. We aim to maintain the annual emissions of

each substance from respective plants at 3 tons or less in fiscal 2009, reducing that to 1 ton or less in fiscal 2010.

*VOC

Abbreviation of Volatile Organic Compounds

Proper storage and disposal of PCB

Equipment containing polychlorinated biphenyl (PCB) previously used by Kao is currently stored securely at our Wakayama, Tokyo and Kawasaki plants, awaiting disposal by the Japan Environmental Safety Corporation.

Meanwhile, equipment still in use that is likely to contain PCB will be investigated upon discontinuation of use. In fiscal 2008, it was revealed that discarded equipment owned by affiliated companies contained traces of PCB. This equipment will also be stored and managed appropriately.

GHS-compliant MSDS and product labels developed

Since December 2006, Kao has provided customers with a GHS*¹-compliant MSDS*² for each chemical product containing substances stipulated by the revised Industrial Safety and Health Act of 2006 and at the same time has changed product labels to make them GHS-compliant. In addition, for chemical products that do not fall under the Act, Kao has promoted the step-by-step introduction of GHS-compliant MSDS and product labels. As a global operator, Kao has established a multilingual GHS-compliant MSDS creation and management system, under which data can be viewed or printed via the Internet at any distribution facility.

*1 GHS

Abbreviation of Globally Harmonized System of Classification and Labelling of Chemicals, a consistent, global approach to the definition and classification of chemical hazards using a commonly recognized format for uniform hazard labeling and safety data sheets.

*2 MSDS

Abbreviation of Material Safety Data Sheet(s), documents that provide information to ensure safe and appropriate handling of chemicals, such as names of substances contained in the product, information about potential hazards and handling precautions.



- Chemical substances management at Kao
- Promoting Yellow Cards
- Promoting green procurement

Building upon the success in achieving zero emissions at all our plants in Japan, Kao is committed to further reduction and optimum management of waste materials, in line with new, stricter targets.

Management of Waste Materials

Defining zero emissions more strictly

Kao began activities to achieve zero emissions in fiscal 2004. In fiscal 2006, all Kao's plants in Japan achieved the zero emissions target.

In fiscal 2007, each plant conducted activities to improve yield and loss rates and reduce waste fluid for incineration. These efforts resulted in a reduction of the final disposal rate of all the plants combined to 0.09%.

Building on the previous achievements, in fiscal 2008, Kao 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. We then made efforts to further reduce waste materials in order to achieve the new target.

As a result of these efforts, the final disposal rate was 0.08%, meaning we were able to maintain a level below the 0.2% target. And waste generation per unit of production output was reduced to 98.6% of the previous fiscal year and we achieved our target 99.5%.

Promoting recycling activities at nonproduction office sites

Kayabacho and Osaka offices are working on the 3Rs for general waste, promoting the separated collection and recycling of recyclable garbage, such as paper, plastic and cardboard.

Since July 2006, Kayabacho Office has maintained its final disposal amount of waste at zero as a result of changing general office waste disposal contractors, in order to promote recycling.

Meanwhile, Osaka Office pursued a stringent

practice of separation of waste on a continuous basis and succeeded in reducing the amount of waste generated. In October 2007, the office was certified as a building having achieved "outstanding waste reduction" by the Osaka municipal government.

Moreover, for product transportation, Kao Logistics uses reusable belts in place of stretch film previously used to bind cargo during pallet transportation. Reduction in the amounts of film used for product packaging is also promoted through the concerted efforts of laboratories and plants.

Introducing a Waste and Recycling Governance System

Against a background in which the governance of waste disposal and recycling is becoming increasingly important, Kao has developed and operates its Waste and Recycling Governance System for the integrated management of contracts with external contractors, operation of industrial waste manifests and numerical waste data.

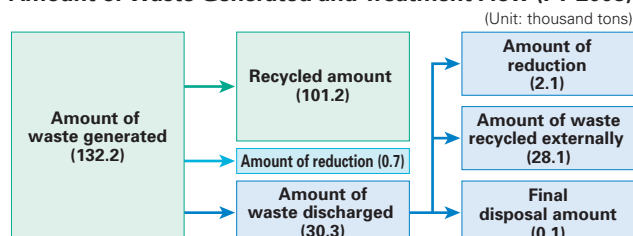
In fiscal 2008, the system was upgraded with the addition of a new functional capacity to assist in the task of checking the appropriateness of waste disposal by contractors. This enables Kao to share the disposal results data prepared by contractors, which helps in the formulation of on-site inspection and check plans, based on differences with previous disposal results. Operated by Kao Corporation and its eight affiliated companies in Japan, the system has made the inspection of our contractors' disposal status more efficient.

In addition, we conducted seminars on proper disposal status inspection and 241 employees of Kao and its domestic affiliated companies attended to improve their evaluation skills for on-site inspections.



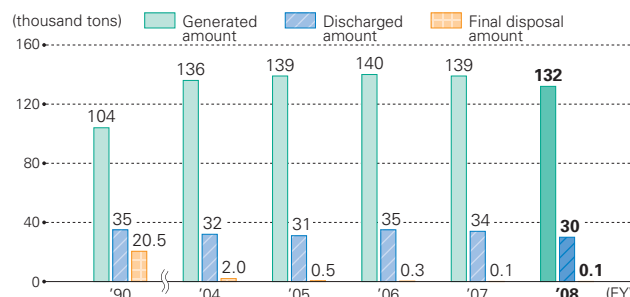
- Promoting a variety of efforts for waste reduction
- Tochigi Plant awarded commendation from the Minister of the Environment for its contribution to the formulation and promotion of a recycling-based society

Amount of Waste Generated and Treatment Flow (FY 2008)



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

Changes in Waste Amounts (Production Sites)



*With the consolidation of Niko Seishi Co., Ltd. into the group in fiscal 2008, data back to fiscal 1990 were modified. Since fiscal 2006, Kanebo Cosmetics Inc. has been included.

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

Effective Utilization of Water Resources

Reusing water used for cleaning

Each of Kao's plants uses water as a product ingredient and to clean and cool equipment. To use water efficiently, water that has been used for cleaning or other purposes is treated and reused at some plants. Sumida Complex utilizes water resources effectively by collecting rainwater for greening, etc.

Water consumption and the amount of effluent in fiscal 2008 decreased by 592,000 tons and 776,000 tons, respectively, from fiscal 2007. These reductions were a result of the improvement of equipment for soot and dust control at Kawasaki Plant and the collection and reuse of drain water.

Wastewater Control

Strengthening the wastewater control system

Following incidents in which glycerin became mixed into the wastewater system at Wakayama Plant in April 2007 and a leak of urea in excess of the regulatory standard value was discovered in wastewater at Kawasaki Plant in October 2007, Kao focused efforts on fundamental activities in fiscal 2008, such as conducting routine patrols and conforming to rules stipulated in ISO 14001 at all plants. Moreover, we reinforced our wastewater control system by improving the wastewater treatment capacity of Toyohashi Plant and renovating aging facilities at Kashima Plant.

As a result of these efforts, we did not exceed the regulatory wastewater standard in fiscal 2008 for a single substance. We will continue to improve and renew facilities step by step to ensure stable operations.

Environmental impact of discharged wastewater after product use

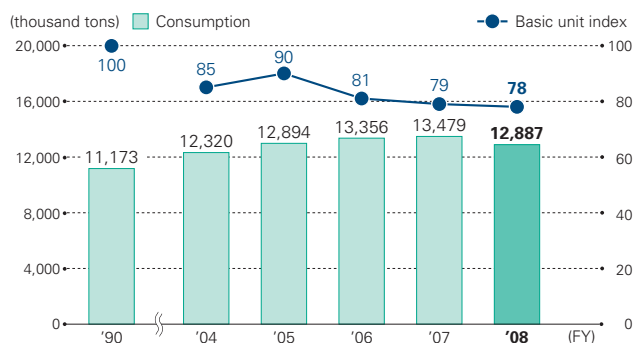
Domestic wastewater discharged after the use of laundry detergent and other consumer products is decomposed either at controlled wastewater treatment facilities or by microorganisms in rivers, before being returned to the natural system of rivers, lakes, oceans, etc. Wastewater treatment after the consumption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

To ensure that Kao's products do not impose excessive burdens on these purification and circulation systems, Kao defines its basic policy for environmentally conscious design as "promoting the lowering of environmental impacts throughout the entire life cycle of products." Based on this policy, we endeavor to use highly biodegradable raw materials that have less impact on the ecological system.

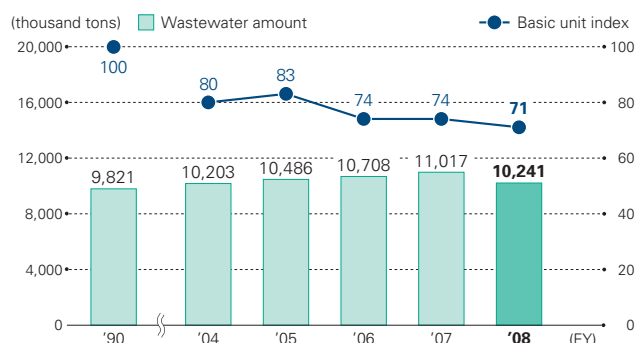
At the same time, to address the negative effects our products may have on the natural environment after use, Kao is conducting environmental monitoring surveys jointly with other member companies of the Japan Soap and Detergent Association (JSDA) as part of the association's Environmental Safety Technical Subcommittee of the Environmental Committee. Specifically, we measure surfactant concentrations for four substances subject to the PRTR Law, including cleaning agent LAS, in four major 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 results of the investigation thus far have revealed that risks of surfactants to aquatic organisms are not high (according to the FY 2008 Environmental Year Book Vol. 33, JSDA).

Changes in Water Consumed (Production Sites)



Changes in Wastewater Amount (Production Sites)



*With the consolidation of Niko Seishi Co., Ltd. into the group in fiscal 2008, data back to fiscal 1990 were modified. Since fiscal 2006, Kanebo Cosmetics Inc. has been included.

Measures for Biodiversity

Aiming for biodiversity preservation

Biodiversity is on a path of decline due to various environmental impacts created by human activities.

Kao is making efforts to contribute to the preservation of biodiversity in two ways, based on the recognition that our business activities are deeply related to the ecological system, in that we use palm and copra oil supplied from the natural world as our main raw materials.

Part of our focus is on the promotion of corporate activities that gradually reduce the impact of business activities on biodiversity. For example, to maintain biodiversity in the production of palm oil, one of our main raw materials, we have become a member of the Roundtable on Sustainable Palm Oil (RSPO), thereby paying due consideration to the protection of tropical rainforests and wildlife. In addition, to minimize the impact of our production plants and offices on local ecological systems, we have established self-imposed emission standards, which are stricter than regulatory standards, for water quality and airborne emissions from Kao's production plants. Naturally, we do not construct production plants in the vicinity of nature preserves.

The other focus of our efforts is an activity to help our employees and society as a whole to learn about the importance of preservation of biodiversity. Specifically, we provide support for Kao Earthwatch Teachers' Fellowship, organized by non-profit organization Earthwatch Japan, (see page 40) and implement the Kao Creating Forests for Everyone program (see page 40).

In addition to these activities, we will continue to take part in the Japan Business Initiative for Conservation and Sustainable Use of Biodiversity (JBIB) in the conduct of joint research projects on the preservation of biodiversity from an international point of view and will hold dialogue meetings with our stakeholders on the findings.

Participating in the Roundtable on Sustainable Palm Oil (RSPO)

Kao became a member of the international NGO Roundtable on Sustainable Palm Oil (RSPO) in 2007, in support of the Principles and Criteria stipulated by the RSPO. RSPO aims to address social and environmental problems that have emerged with the expansion in the production of palm oil, such as the destruction of ecological systems from the logging of tropical rainforests and harsh working conditions at plantations.

All of Kao's palm oil suppliers have participated in the RSPO.

Measures for Soil Contamination

Groundwater investigations and measurements conducted

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

In fiscal 2008, voluntary investigations were conducted at Wakayama Plant, along with government sampling surveys. Voluntary investigations were also conducted at Sakata and Tochigi plants. The investigations revealed that levels of all substances were below their limit values.

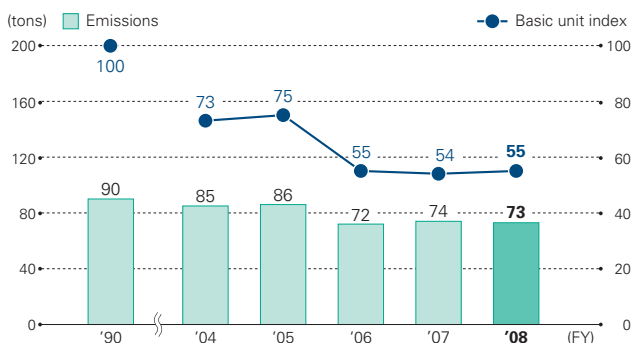
As for soil contamination within plant premises, an investigation conducted in fiscal 2007 confirmed that levels of substances were below standard values. The next investigation is scheduled for fiscal 2009.

Regulatory Compliance

Compliance with relevant laws and regulations

In fiscal 2008, there were no instances of regulatory standards being exceeded in terms of wastewater and soil contamination, and thus no violations of environment-related laws and regulations.

Changes in COD Emissions (Production Sites)



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

Various Forms of Communication on Environmental Topics

Environmental and safety reports issued by plants and affiliated companies

Since fiscal 2005, the Kao Group has issued environmental and safety reports for affiliated companies and plants as a communication tool for obtaining the understanding of our stakeholders on the environmental conservation and safety activities of each plant and to gain feedback and insight to give direction to future activities.

In fiscal 2008, Kao's eight plants in Japan produced Environmental and Safety Site Reports, which were distributed to local residents and plant tour participants. Kanebo Cosmetics also compiled a report titled Environmental Activities 2008 that outlined the

company's environmental conservation activities. This, the second such report (the first was released in 2007), will be made available on the company's Web site. Outside of Japan, Kao Chemicals Europe, S.L. (KCE) published a CSR Report, while Kao Corporation Shanghai issued an Environmental Report.



Environmental and safety reports issued by plants and affiliated companies

Meeting for exchange on environment, safety and disaster prevention issues

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

The meeting held in March 2009 was attended by 18 representatives of six nearby neighborhood associations. The Complex provided detailed explanations of its environmental, safety and disaster prevention activities.

In addition, Sakata Plant organized a meeting to explain in advance the work it was planning to conduct to dismantle old exhaust flues, while Kashima Plant participated in a community dialogue meeting in the Kashima district, organized by the Japan Responsible Care Council.

Providing environmental education

Prior to the Eco-Products 2008 environmental exhibition, Kao offered preparatory classes in November 2008, in cooperation with the Nippon Association of Consumer Specialists, to high school students invited to the exhibition by the Association.

The preparatory classes were conducted at Kanagawa Prefectural Ebina High School and at Kanda Jogakuen Senior High School in Tokyo, both of which have exhibited at the Eco-Products exhibition every year. Based on the theme of "Kao: serving the people and protecting the environment" we gave video presentations and demonstrations of refill containers to introduce our endeavors to reduce environmental impacts and our commitment to putting *Yoki-Monozukuri* into action, while incorporating feedback from consumers. The high school students who participated in the class made comments such as, "It



Preparatory class

was interesting and easy to understand," and "It made me realize the importance of considering not only the environment, but people as well."

TOPICS

Kao participates in Eco-Products 2008

Kao was a participating exhibitor at Eco-Products 2008, one of Japan's largest international environmental exhibitions, held from December 11 to 13, 2008 at Tokyo Big Sight.

Under the theme of "Kao: serving the people and protecting the environment," Kao provided information about its corporate activities and products by using panel presentations, demonstrations, and quizzes. Visitors responded positively to our explanations of our continuous improvement of products and industrial chemicals that contribute to environmental protection, which general consumers are unfamiliar with. Kao also displayed panels on the activities undertaken by the Study Group for Developing and Promoting a Carbon Footprint Program established by the Ministry of Economy, Trade and Industry of



Kao's exhibition booth

Japan, for which Kao studied the carbon footprint* of shampoo products. We received a lot of questions and comments from visitors.

Kao continues to take such opportunities to promote dialogue with stakeholders and incorporate their feedback into our future activities.

* Carbon footprint

The whole life cycle CO₂ emissions of a product. The program seeks to place such information on product labels.

Method of Aggregation for Fiscal 2008

- The aggregation methods for fiscal 2008 comply with the Japanese Ministry of the Environment's "Environmental Accounting Guidelines 2005." Kao also refers to the "Environmental Accounting Guidelines for Chemical Companies (November 2003)" issued by the Japan Chemical Industry Association.
- The accounting scope covers Kao Corporation and its seven domestic subsidiaries (Kanebo Cosmetics Inc., Kao Customer Marketing Co., Ltd., Ehime Sanitary Products Company, Limited, Kao-Quaker Company, Limited, Kao Professional Service Company, Limited, Goldwell Japan Co., Ltd. and Niko Seishi Co., Ltd.). With the consolidation of Niko Seishi Co., Ltd. into the group in fiscal 2008, past data were modified accordingly.

Environmental Conservation Cost
(Categories Corresponding to Business Activities) (Unit: million yen)

Categories	Key Activity and the Outcome	Investment	Cost *1
(1) Business Area Costs		957	3,944
Breakdown	Air and water pollution prevention	469	1,844
1) Pollution Prevention Cost			
2) Global Environmental Conservation	Energy conservation	232	220
3) Resource Circulation Cost	Resource saving, waste treatment and disposal	256	1,880
(2) Upstream/Downstream Cost	Plant and equipment for environmentally-friendly products, containers, and packaging recycling	129	2,261
(3) Administration Cost	Acquisition and maintenance of ISO certification, environmental publicity, tree planting within work sites	14	948
(4) R&D Cost	Environmentally-friendly R&D	228	1,910
(5) Social Activity Cost	Natural environmental conservation and tree planting activities outside work sites, donations	0	62
(6) Environmental Remediation Cost		—	0
Total		1,328	9,125

*1: Expense amounts include depreciation costs.

Environmental Conservation Benefits
(Physical Quantity Benefits)

Categories	Environmental Performance Indicators (units)	FY 2007	FY 2008	Change
Related to Resource Input into Business Activities	Energy consumption of production activity (crude oil equivalent, kl)	251,096	240,241	-10,855
	Water consumed (1,000 tons)	13,479	12,887	-592
	Greenhouse gas emissions (CO ₂ equivalent: 1,000 t)	478	469	-9
	SOx emissions (t)	41	27	-14
Related to Waste or Environmental Impact Originating from Business Activities	NOx emissions (t)	441	375	-66
	Wastewater amount (1,000 t)	11,017	10,241	-776
	COD emissions (t)	74	73	-1
	Waste discharged (1,000 t)	34	30	-4
	Final disposal amount of waste (1,000 t)	0.1	0.1	0
	Emissions of chemical substances subject to PRTR Law to the air (t)	3	3	0

Economic Benefit Associated with Environmental Conservation Activities

(Unit: million yen)

Details of Benefit	Amount *2
Revenue from sales of valuable residues	525
Reduction in costs through energy conservation	259
Cost reduction	2,537
Reduction in operation costs (maintenance costs, etc., of environmentally-friendly equipment)	243
Total	3,564

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

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	232	215
(2) Cost related to ozone layer protection measures	Switch to CFC substitute	68	16
(3) Cost related to air quality conservation measures	Prevention of air pollution, prevention of dust pollution, malodor prevention	38	531
(4) Cost related to noise and vibration measures	Noise prevention	7	13
(5) Cost related to environmental conservation measures for the aquatic, ground, and geologic environments	Prevention of water pollution	356	1,292
(6) Cost related to waste and recycling measures	Resource saving, industrial waste volume reduction, recycling	385	4,126
(7) Cost related to measures for reducing chemical risk and emissions	R&D on products and production	228	1,910
(8) Cost related to natural environmental conservation	Natural environmental conservation and tree planting activities outside plants, donations	0	61
(9) Other costs	Acquisition and maintenance of ISO certification, environmental publicity, tree planting activities within the premises of plants	14	961
Total		1,328	9,125

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

Categories	FY 2006	FY 2007	FY 2008
(1) Environmental Conservation Cost			
Investment (million yen)	2,466	1,608	1,328
Cost (million yen)	9,544	10,765	9,125
(2) Environmental Performance Indicators Concerning Environmental Conservation Benefit			
Energy consumption of production activity (crude oil equivalent, kl)	255,465	251,096	240,241
Water consumed (1,000 t)	13,356	13,479	12,887
Greenhouse gas emissions (CO ₂ equivalent: 1,000 t)	485	478	469
SOx emissions (t)	35	41	27
NOx emissions (t)	468	441	375
Wastewater amount (1,000 t)	10,708	11,017	10,241
COD emissions (t)	72	74	73
Waste discharged (1,000 t)	35	34	30
Final disposal amount of waste (1,000 t)	0.3	0.1	0.1
Emissions of chemical substances subject to PRTR Law to the air (t)	3	3	3
(3) Economic Benefit Associated with Environmental Conservation Activities			
Actual benefit (million yen)	3,189	3,354	3,564

Independent Verification Opinions on CSR Report 2009

June 9, 2009



レスポンシブル・ケア

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

Chairman, Verification Advisory Committee
Japan Responsible Care Council

Akio Yamamoto

Chief Director, Responsible Care Verification Center
Japan Responsible Care Council

[Signature]

■ Purpose of verification

This verification report aims to express opinions of the Responsible Care Verification Center, in its capacity as an expert in the chemical industry, on the following matters as to CSR Report 2009 prepared by Kao Corporation (hereinafter, "the Report"). The scope of the verification is confined to matters related to the environment, health and safety.

- 1) Rationality of methods to calculate and compile performance indices (numeric values), and accuracy of numeric values
- 2) Accuracy of information other than numeric values contained in the Report
- 3) Evaluation of Responsible Care activities
- 4) Characteristics of the Report

■ Verification procedure

- For the company's Head Office, the Center audited rationality of methods to compile numeric values reported from each of its sites (offices and plants) and verified the accuracy of information other than the numeric values contained in the Report. This was done by interviewing personnel responsible for relevant business operations and those in charge of preparing the Report. The Center also examined and heard explanations of supporting documents.
- For Wakayama Plant, the Center audited rationality of methods used to calculate numeric values that were reported to the Head Office, accuracy of the numeric values and accuracy of information other than the numeric values contained in the Report. The Center conducted the audit by interviewing personnel responsible for relevant business operations and those in charge of preparing the Report, examining supporting documents and hearing explanations of those documents. The Center also cross-checked the data and information against other material evidence.
- The Center used the sampling method to verify the numeric values and information in the Report.

■ Opinions

- 1) Rationality of methods used to calculate and compile the performance indices (numeric values), and accuracy of the numeric values
 - The Center confirmed that rational methods were employed at the Head Office and Wakayama Plant to calculate and compile numeric values. It also confirmed that Kao established the Environmental & Safety Data Management System ("Kanchan" System), which automatically aggregates numeric values related to environmental and occupational safety activities.
 - Insofar as we audited, numeric values for performance are accurately calculated and compiled.
- 2) Accuracy of information other than numeric values
 - The Center confirmed that the information contained in the Report was accurate. Although the Center pointed out that the draft Report contained some inappropriate expressions and difficult-to-understand sentences, appropriate corrections have been incorporated in the final Report. The Center thus recognizes no significant errors in this Report that call for corrections.
- 3) Evaluation of Responsible Care (RC) activities
 - The Center commends Kao for its steady reduction of energy consumption and greenhouse gas emissions. It expects the company to step up its efforts to reduce energy consumption in transportation and CO₂ emissions from offices and other non-production sites.
 - The Center evaluates highly the company's efforts in reducing the environmental burdens during product use, which draws the most attention from the viewpoint of product life cycle.
 - The Center recognizes the Wakayama Plant's efforts, as the Plant has promoted active corporate citizenship activities such as Kao's "Kigyuu-no-mori" (corporate afforestation) program, has sustained its record of zero accidents since May 2004 and has steadily reduced the amount of landfill disposal.
- 4) Characteristics of the Report
 - All contents of the Report are published on Kao's Web site, while key contents have been compiled and issued in a printed publication.

Please forward any inquiries to:

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CSR Report 2009 is also available at Kao's Web site.



http://www.kao.com/jp/en/corp_csr/csr.html

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