

Kao Sustainability Report 2011

— Summary —

Enriching lives,
in harmony with nature.

Kao

Our Mission

Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective.

This commitment is embraced by all members of the Kao Group as we work together with passion to share joy with consumers and customers in our core domains of cleanliness, beauty, health and chemicals.



Editorial Policy

● Kao's CSR activities consist of "Strategic CSR" activities that enhance corporate value through its core business and "Basic CSR" activities on which its business activities are based. At Kao, those activities are collectively called "sustainability activities."

● Some of the "Strategic CSR" activities are reported in the section of "Challenges to *Yoki-Monozukuri**" according to Kao's three priority themes ("global operation," "ecology" and "human capital development") concerning global social challenges (environmental issues, aging of society, health, etc.).

* *Yoki-Monozukuri*: Our commitment as a manufacturer to providing excellent products

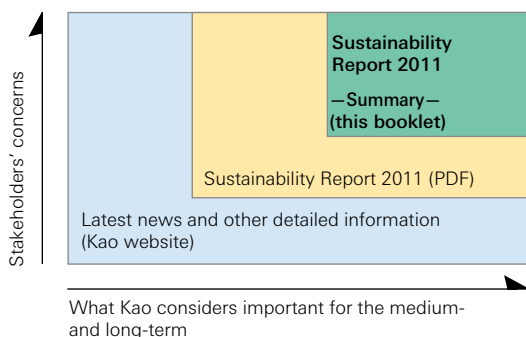
● As for "Basic CSR" activities, the highlights of Kao's activities are presented in the section of "Commitments to *Yoki-Monozukuri*." Other activities are reported in the "Kao Sustainability Report 2011" on Kao Corporation's corporate website.

● In deciding the items to be reported, we organize report themes on the two axes of "Kao's medium- and long-term tasks" and "stakeholders' concerns" and place the themes that seem to be more important for both axes in this booklet. We also received opinions from external experts regarding important themes and introduce them as stakeholders' voices.

* "Contents of the Booklet and Full PDF Version" are on page 28 of the booklet.

"Kao Sustainability Report 2011"

<http://www.kao.com/jp/corp/csr2011/>



Scope of reporting

Scope of reporting

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

As for environmental data, this report covers the activities of the Kao Group in Japan.

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

In this report, "Kao" means the Kao Group.

We have stated the names of individual organizations covered if it is necessary to identify the scope.

Names of organizations covered

We have listed them on pages 29–30 in this booklet.

Period covered

Performance data pertains to fiscal 2010 (from April 1, 2010 to March 31, 2011). Data on occupational safety and health, as well as on overseas Kao Group companies, covers the calendar year 2010 (from January 1 to December 31, 2010). Some fiscal 2011 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 Chemical Industry Association.

Activities covered

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

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Kao is committed to people in societies around the world realizing better lives.



A handwritten signature in black ink that reads "Motoki Ozaki".

Motoki Ozaki

Representative Director
President and CEO
Kao Corporation

Deep sympathy for people affected by the Great East Japan Earthquake

I would like to express my heartfelt sympathy to the people affected by the Great East Japan Earthquake, and by the subsequent accident at the Fukushima Daiichi Nuclear Power Plant caused by the earthquake and tsunami. I also would like to express my deepest gratitude to the people around the world who have offered their warm support, prayers and encouragement to Japan. We at the Kao Group hope that the affected areas will be restored as soon as possible.

We believe that it is our mission, as a manufacturer of daily necessities, to provide a steady supply of goods useful in everyday life and we made significant efforts to restore our business operations as soon as possible after the earthquake, in line with this vision.

However, with our earthquake-stricken plants forced to temporarily suspend production and transportation networks in the affected areas severed because the distribution bases were

damaged in the earthquake and subsequent tsunami, we experienced a market shortage for some of our products. We sincerely apologize for any inconvenience this may have caused.

As for the Kao Group, unfortunately, more than a few employees and their families and friends suffered from this disaster though to varying degrees, and some plants, distribution centers and offices sustained damage. However, as a result of all employees' efforts, operations are now almost back to normal, and we are able to supply our products to our customers as normal. We will continue to take all possible measures to ensure stable supplies of our products.

This unprecedented major catastrophe is expected to have a profound impact on the Japanese economy and society over the medium- and long-term. All of us Kao members will continue to work together to cope with the difficulties and hope to contribute to the recovery of the Japanese economy.



Visit to Tochigi Plant after the earthquake



New product launch event for *Attack Instant Clean Liquid* in China



Store visit in Vietnam

Contributing to society through *Yoki-Monozukuri*

This year, Kao celebrates 121 years since the release of its very first product, *Kao Sekken* (Kao Soap). We have continued to develop and manufacture products from a consumer's perspective, and this concept forms the essence of our business operation. We have carefully observed people's lifestyles over the ages and continue to strive for the enrichment of people's lives by responding to consumer needs with technological development.

In the 21st century, a multitude of social issues have come to the surface. We are particularly focused on environmental concerns, the aging of society, and health as important themes for our business operations.

To address environmental concerns, the Kao Group announced the Environmental Statement in June 2009, set medium-term objectives towards the year 2020, and began work on the "eco together" initiative in cooperation with consumers, partners and society. Many of the daily necessities that we provide can have a significant effect on the reduction of environmental impacts through not only their manufacturing process, from material procurement to production, distribution and sales, but also, and more importantly, water and energy savings in the usage of our products by customers. We will therefore continue to make active efforts to raise awareness of the environment while advancing research and development of environmentally conscious products. With the opening of the Eco-Technology Research Center in June 2011, where research and development of environmental technologies are concentrated, we will further promote the development of environmentally conscious products. We have also established the Kao Eco-Lab Museum within the center to raise awareness of environmental issues.

In the meantime, the aging of society and the increasing health consciousness of people, which are already evident in advanced countries including Japan, will spread to Asian countries in the near future. It is expected that there will be a growing need to deal with these issues. Using the knowledge and technologies that Kao has cultivated in the development and manufacturing of products in Japan thus far, we will propose products and solutions in the global market to allow everyone to live comfortably and in good health.

Putting *Genba-ism* into practice in the global age

The Kao Group's understanding of globalization is not simply exporting products which have been successful in Japan to overseas markets. It is important for us to have a specific vision of target lifestyles and consumers in each country or region. To this end, it is essential to practice consumer-driven, *Genba-ism*. When I visit the homes of local people in countries outside Japan

in order to better understand diverse lifestyles, I often find huge and refreshing differences in ways of thinking and local customs, but I also believe that there is no difference in people's desire for cleanliness, beauty and health and that there is always something we can offer. This perspective is deeply rooted among our employees as part of Kao's corporate culture, and in implementing business globally, we visit the homes of local people to conduct research, striving to develop products based on their lifestyle habits.

Diversity and inclusion

With the increasing pace of globalization, we need to increase the number of employees who will commit to *Yoki-Monozukuri* for the benefit of consumers around the world. At present, 26% of Kao Group employees work outside Japan, and it is expected that this ratio will increase in the future. We will not only contribute to promote local employment, but also see more and more staff with diverse backgrounds work in different countries and regions. In this environment, we aspire to create a corporate culture where employees with different backgrounds embrace mutual differences and these differences spark the generation of synergies to fuel new creative processes.

Continue to be a trusted company

In 2005, Kao joined the United Nations Global Compact which prescribes 10 principles in the areas of human rights, labor and the environment and expressed our commitment conducting fair business operations based on the international standards. In addition, we have shared Kao's Business Conduct Guidelines across the Group based on the Global Compact.

Furthermore, as women make up more than half of Kao Group employees, Kao became a signee to the Women's Empowerment Principles^{*1}, an international guideline for women's participation in society, in September 2010.

As our business expands and social conditions continue to change, we must maintain our strong commitment to *Yoki-Monozukuri*. It is our passion to continue providing useful products so people around the world can live better and more comfortable lifestyles.

^{*1} The Women's Empowerment Principles were jointly formulated by the United Nations Global Compact and the UN Women (United Nations Entity for Gender Equality and the Empowerment of Women).

Response to the Great East Japan Earthquake (as of June 1, 2011)

1 Overview of damage incurred by the Kao Group

● Personal suffering

In the Kao Group as a whole, one person died, and one person is missing.

● Property damage

Plants & Research Laboratories

Four plants and two research institutes of Kao Corporation located in the Tohoku and Kanto areas temporarily suspended operations due to the damage caused by the earthquake and tsunami. At present, however, all the affected plants and research institutes have resumed operations.

- **Sakata Plant** There was no damage to the equipment. The plant suspended operations due to unstable power supply. It commenced reduced production on March 16 and returned to normal production of all products on March 22.
- **Tochigi Plant** The plant shut down because the equipment and buildings were partially damaged. It commenced reduced production on March 19 and returned to full production of all products on April 10.
- **Tochigi Research Laboratories** The lab suspended operations due to damage caused by the earthquake. It commenced ordinary operations on April 1.
- **Kashima Plant** The plant shut down due to damage caused by the tsunami and liquefaction. It commenced production sequentially with temporary responses starting on April 4. No chemical substances were spilled.
- **Kashima Research Laboratories** Operations were suspended due to the damage caused by the tsunami. Operations commenced in stages from March 28.
- **Kawasaki Plant** The plant suspended operations due to damage, including the scattering of stored goods at the automated product warehouse. It commenced production on March 15. The automated product warehouse was restored on March 29.



Kashima Plant suffered damage from liquefaction



Logistics Center in Sendai damaged by the tsunami

Logistics & Sales

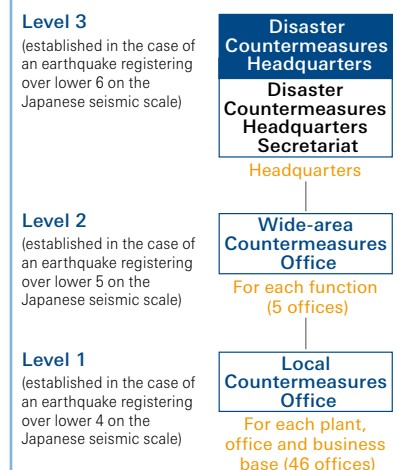
- **Kao Logistics Co., Ltd.** Sendai Logistics Center (LC) shut down due to damage caused by the earthquake and tsunami. After March 16, alternative shipments commenced in stages from Niigata LC, Aomori LC, etc. Ordinary operations are expected to begin in late June.
- **KC Logistics Inc.** Sendai Minami LC shut down due to damage caused by earthquake. On March 24, alternative shipment from Ishikari LC and Sumida Kita LC commenced. Ordinary operations are expected to begin in early July.
- **Kao Customer Marketing Co., Ltd.** Iwate, Sendai, Fukushima and Iwaki Offices sequentially commenced operations starting on March 22.
- **Kanebo Cosmetics Sales Inc.** Iwate, Miyagi, Fukushima and Ibaraki Offices sequentially resumed operations starting on March 14.

2 Disaster Countermeasures Headquarters

Based on the standards of its disaster prevention system, Kao immediately set up the Disaster Countermeasures Headquarters headed by the President & CEO within the Head Office in Tokyo as an initial response after the earthquake, and immediately started to gather information. Under the leadership of the chief of headquarters, we confirmed the safety of employees and related persons and the situation of damage. We then grasped the internal and external situation including production, supply chains, and logistics. Based on the Business Continuity Plans (BCPs), we endeavored to take alternative measures and make recovery efforts to fulfill our responsibility to supply products as a manufacturer of daily necessities.

- | | |
|--|--|
| <p>March 11 (Fri.),
2.50 p.m.</p> <p>3.15 p.m.</p> <p>Night-time</p> <p>March 12 (Sat.)</p> <p>After March 14 (Mon.)</p> | <ul style="list-style-type: none"> ● After the shaking stopped, we established the Disaster Countermeasures Headquarters and the Disaster Countermeasures Secretariat to secure the communication system. ● We finished establishing Wide-area Countermeasures Offices. We began confirming the damage of our plants and business bases by satellite phone, etc. ● Through the safety confirmation system, we began confirming the safety of employees and their immediate families, contract employees, part-time employees and families of expatriate employees living in Japan. ● We provided emergency food, beverages, blankets, and sleeping bags to stranded employees who stayed at the workplace. ● We began confirming the detailed situation of damage of the affected plants and business bases by videoconference with each Wide-area Countermeasures Office. ● We confirmed the situation of supply chains and considered the provision of products according to the urgency. ● We held Disaster Countermeasures Headquarters meetings every day. (President & CEO, Senior Executive Vice Presidents, Executive Vice Presidents, secretariat members, etc.) (Meetings were held every day in March and once a week from April) ● We considered internal and external support activities. |
|--|--|

Kao's Disaster Prevention System (Establishment standards in the case of earthquake)



3 Assistance to the areas affected by the quake and tsunami

● Provision of relief money and collection of donations from employees

Kao provided a total of 130 million yen, including relief money from the Kao Group in Japan, donations from overseas Kao Group companies, and employees of domestic and overseas Kao Group companies.

● Emergency supplies

To ensure efficient and rapid delivery, we continue to provide daily necessities in accordance with local needs by cooperation with the administrative Disaster Countermeasures Headquarters in the local areas, NGOs, etc. (currently worth a total of 100 million yen)

- Disposable diapers, sanitary napkins, soaps, detergents, toothpastes, toothbrushes, mouthwashes, masks, disinfectant sheets, wet wipes for babies, hand disinfectants, hand cream, shampoos, hair conditioners, etc.

● Employees' participation as volunteers

Kao provided its products for relief packs distributed to individual households by Nippon Keidanren and the local disaster volunteer centers. Eleven employees participated in the packing work as volunteers. In addition, 22 employees participated in reconstruction assistance as volunteers, including the removal of mud and moving out furniture and household goods.

● Participation in the "Children's Mini Libraries" project of the Japan Committee for UNICEF

Kao's employees throughout the country donated about 900 children's books for the UNICEF project that delivers books to the evacuation centers.



Shipping to an NGO on March 24



Reconstruction assistance activities conducted in Iwate on May 15

4 Responses to stakeholders

Retailers of household products and cosmetics

In the week following the earthquake, Kao Customer Marketing Co., Ltd. and Kanebo Cosmetics Sales Inc. explained to their retailers throughout the country that, as part of their response to the disaster, they were making it a top priority to deliver their products to the areas affected by the quake and tsunami. At the same time, they visited individual stores of their retailers in these areas to help put them in order and allow them to reopen.

Customers for chemical products

Since the Kashima Plant was damaged, and a supply suspension could not be avoided, the Chemical Business Unit informed major customers and sales distributors of the situation on March 14 and took immediate action toward resuming production. In addition, to provide alternative products to customers, Kao called for backup from the Wakayama Plant and overseas affiliates and procured alternative products from other companies when it was not possible to ensure supply of products from within the Kao Group.

Consumers

Although there was a temporary state of confusion immediately after the earthquake, Kao's Consumer Communication Center resumed ordinary operations on March 15. The center received numerous inquiries, including requests to deliver relief supplies to the afflicted areas, concerns about Kao's production and supply capabilities due to supply shortages at stores, and regarding anxiety over radiation contamination. We informed consumers about the current situation at the time and Kao's responses to it, and stressed that we were making efforts with the recognition that our mission was to provide daily necessities to consumers without delay. Thanks to these sincere communication efforts, the operations of the center returned to normal in early April.

5 Power saving initiatives

● Power saving at individual plants and offices

Kao is saving electricity by thinning out lighting fixtures, shortening the operating time of air conditioning systems, implementing temperature management system, and restricting the number of elevators in operation. To make further efforts to save energy, Kao urges employees to go home immediately after regular work hours, actively take the stairs instead of elevators, switch lights off during the lunch break and in places where they are not needed, and turn off their PCs and monitors when they leave their desks and leave the office.

● Response to the restrictions on electricity use in summer

To ensure stable supply of products, Kao will make its best efforts, including optimizing production plans and effectively utilizing private electric generators.

● Provision of information on household chores for saving energy

Kao provides specific know-how and proposals to save more electricity and information to live comfortably while saving energy at stores and on its website.



Calling for energy savings at stores and on the Kao website

6 Response to the radiation leaks

Kao manufactures consumer products in the clean environment of indoor plants that are impervious to dust and dirt from outside and strictly manages them according to international quality management standards. In addition, Kao complies with necessary preventive measures taken by the Japanese government and local governments, and is continuously taking appropriate measures depending on the situation after confirming published monitoring data. These measures taken by Kao therefore ensure the safety and quality of its products. Kao will continue to make its utmost efforts to ensure the safety and high quality of its products.

Kao implements *Yoki-Monozukuri* and contributes to realizing a sustainable society.

Kao's CSR activities

For Kao to be counted on by society, it is important to promote activities that contribute to solving social issues.

Kao positions activities that contribute to realizing a sustainable society through its core business as "Strategic CSR" and the activities on which its business activities are based as "Basic CSR."

As for "Strategic CSR" activities, based on social issues on which various stakeholders place emphasis and Kao's medium- to long-term strategies, Kao has defined the following three prioritized themes that the Kao Group as a whole works on: "Global operation," "Ecology" and "Human capital development."

As for "Basic CSR" activities, Kao asks external experts to analyze and examine the content of the activities based on the ISO 26000 (an international standard providing guidelines for social responsibility) that was issued in November 2010, and continues to improve these activities in fiscal 2011 and beyond in order to fulfill its social responsibility.

Kao's Strategic CSR and Basic CSR activities



Strategic CSR activities' prioritized themes and progress

Theme 1: Global operation

Provide clean, beautiful and healthy everyday lifestyle through better understanding the lifestyles of people around the world

- Promoting universal design that increases the satisfaction level of people worldwide

Theme 2: Ecology

Further promote the Kao Environmental Statement

- Provide environmentally conscious products and help establish ecological lifestyles
- Promote the medium-term objective of reducing our environmental impact

Theme 3: Human capital development

Foster human resources

- Create organizations, systems and a corporate culture that allow practice of sustainable business.



"Objectives of the prioritized issues of Kao's sustainability" (formulated in fiscal 2010)

Fiscal 2010: Kao formulated action plans and established a promotion system towards 2015.

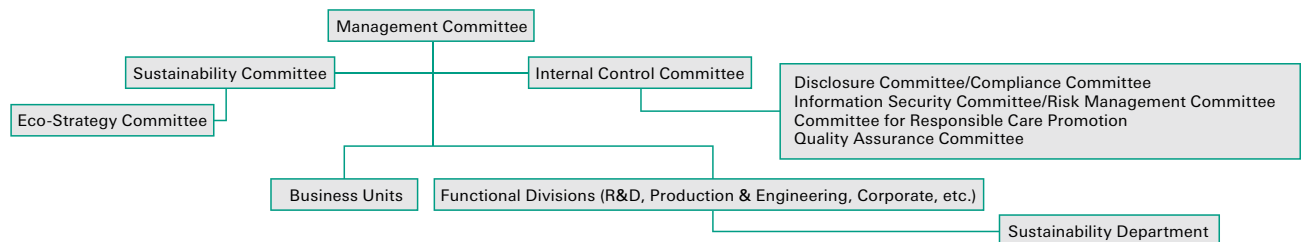
		2010	2011	2012	2013	2014	2015
Global operation	Universal design	Improvement of accessibility and usability			Product development from a universal design perspective		
Ecology	CO ₂ emissions	Achieving a 35% reduction from 2005 (by 2020)*					
	Water consumption during product use	Achieving a 30% reduction from 2005 (by 2020)*					
	Chemical substances	Management in accordance with SAICAM					
	Biodiversity	Biodiversity-friendly material procurement					
	Environmental communication	Provision of environmentally conscious products "Eco together" activities/cooperation with the administration, the distribution industry, and schools					
Human capital development	Diversity	Internal education/formulation of measures and systems for human capital development at the global Kao					

* The data on CO₂ emissions and water consumption during product use in the "Ecology" section target only the Kao Group in Japan.

Promotion of activities for sustainability

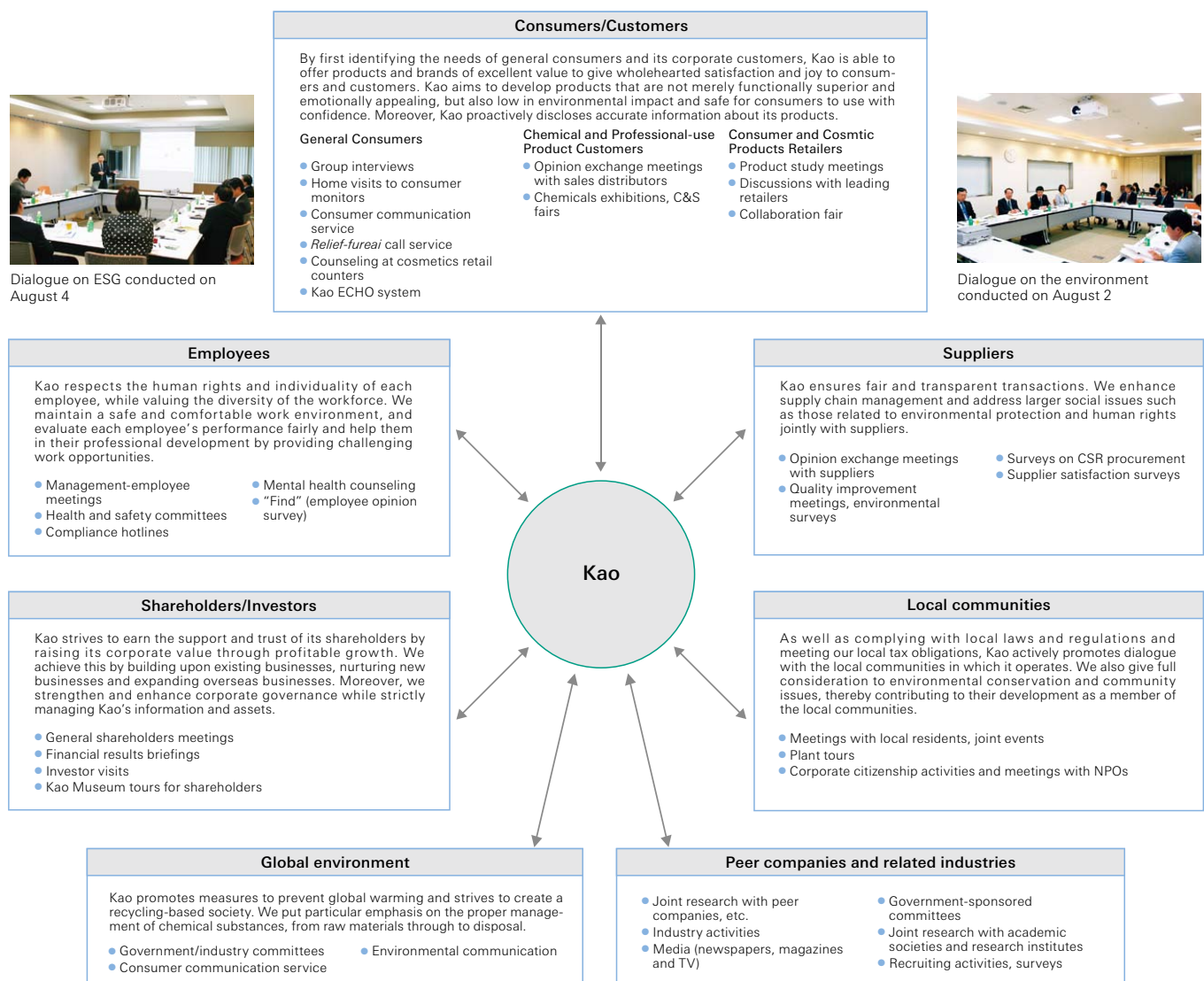
The Sustainability Committee chaired by the President & CEO of Kao Corporation has established the policies for Strategic CSR activities and the direction of Kao's efforts up to 2015. In addition, the Eco-Strategy Committee, a subcommittee of the Sustainability Committee, promotes activities to achieve the objectives expressed in the Kao Environmental Statement that was released in 2009 and reports on their progress at the meetings of the Sustainability Committee (held three times a year).

■ Kao's CSR promotion system (as of March 31, 2011)



Communication

Kao implements two-way communications with stakeholders. Specifically, through dialogue with stakeholders, Kao gains an understanding of society's demands and formulates the direction of Strategic CSR activities.



Advanced technologies adopted to support cleanliness in everyday life for the diverse lifestyles of people around the world.

Kao's *Attack* series is marketed in nine countries throughout the world—China, Thailand, Australia, Hong Kong, Indonesia, Malaysia, Singapore, Taiwan as well as in Japan. Kao is proud to provide specialized and highly developed products tailored to each country's and region's way of life.



Attack Instant Clean Liquid responds to people's concerns regarding cleanliness in China

In developing *Attack Instant Clean Liquid*, released in September 2010, Kao first visited people's homes in China to see how the average household handles laundry tasks and gain an understanding of what people in China expect in terms of cleanliness.

Having surveyed 852 households in urban areas*, Kao found that in addition to machine-washing, Chinese people tend to hand-wash under-garments that directly touch their bare skin and children's clothes and rinse them very carefully. This is because of the Chinese people's concerns that insufficient rinsing is bad for their skin. According to Kao's estimates, the amount of water used for laundering is about 30,000 liters per household per year, and about 80% of this is used for rinsing.

Using the latest technologies, Kao worked to develop a laundry detergent that can remove stains quickly and is easily rinsed out, leaving minimum residue. This reduces the time and effort required for laundry. Through the development of *Attack Instant Clean Liquid*, Kao responded to the laundry needs of urban China and also contributing to Chinese society where people's environmental consciousness is growing.

* Briefing material: August 30, 2010
Consumer Research on Laundering in China: Part II (852 Households in Urban Areas)
Specific Washing Behaviors
http://www.kao.com/jp/corp_news/2010/20100830_001.html



Conducting research on laundering in China



Attack Neo responds to changes in habits of Japanese consumers

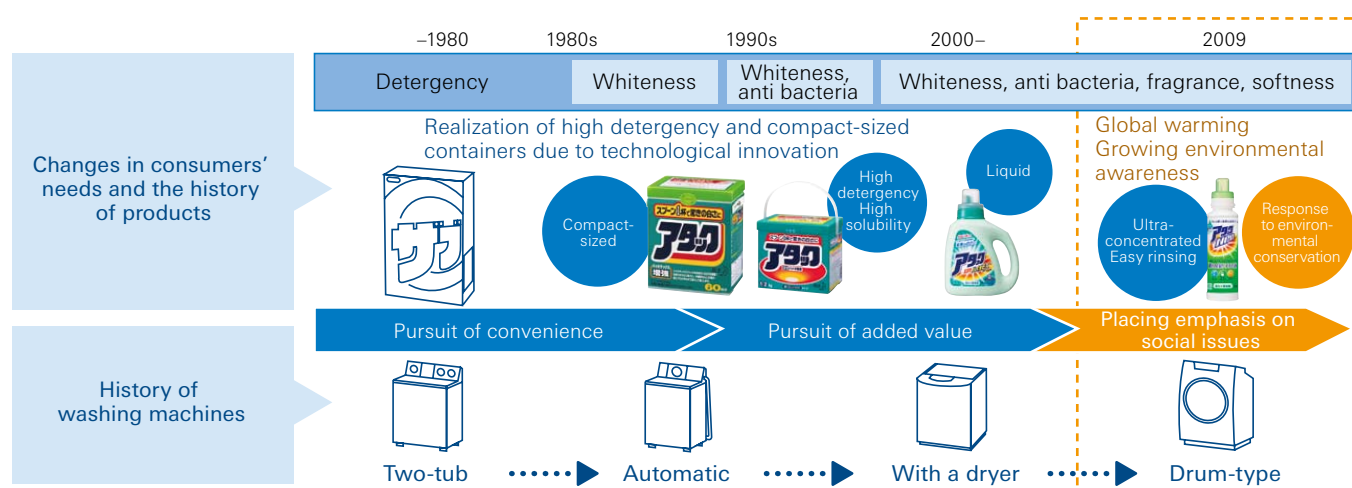
Attack Neo, launched in August 2009, was developed with the driving innovation in laundry habits in Japan as a next-generation liquid laundry detergent, amid a trend toward washing machines with a larger capacity and additional water and time saving functions. Additionally, Kao found that although consumers have become more environmentally conscious, eco-friendly activities do not become habituated unless they also provide an advantage to the user's lifestyle, that laundry is done not only by housewives but also by working women and men and that the time of day people do their laundry is changing.

Attack Neo works intensively on stains, and therefore just a small amount provides superb cleaning performance. In addition, because its new cleaning ingredients are less likely to remain in fabric, laun-

dering requires only a single rinse, leading to a reduction in the water required for laundering. With this detergent, the amount of time required for laundering is reduced, and consumers can have more spare time to relax; they can also take part in the eco-friendly activity of saving water and electricity. Moreover, by making the formula more concentrated by reducing the water contained to the utmost limit compared with traditional detergents, Kao succeeded in making the container more compact. This not only reduces the burden of carrying the product but also reduces the amount of resin used for the container and the environmental impact. All of these have led *Attack Neo* to win the support of consumers.

History of the Attack series

The *Attack* series has developed over time, to respond to changes in society, including the increase in the ratio of working women and the spread of large-capacity washing machines.



Attack Easy—allowing people to wash clothes by hand more easily in Thailand and Indonesia

In Thailand, many children wear white uniforms, which easily become dirty especially due to the many unpaved roads. A survey that Kao conducted in Thailand showed that Thai people are accustomed to washing clothes after wearing them only once, so they end up washing between 20 and 50 items in each laundry session. Among middle-class families, the main method is hand washing. They generally rub a piece of laundry 50 to 200 times and spend 30 to 60 minutes doing their laundry. *Attack Easy*, released in 2006, not only boasts the basic features of high cleaning performance and a pleasant fragrance, but also focuses on ease of washing by hand, requiring less effort due to a new polymer technology that makes clothes slippery.

Currently, *Attack Easy* has grown to become a hit product not only in Thailand but also in Indonesia where laundry is also done by

hand-wash in many households. In addition, Kao provides conveniently sized packages so that consumers can buy it easily, thereby contributing to clean lives of more people.



Research on Thai laundry habits



Biozet Attack liquid responds to Australian consumers' growing environmental awareness

In February 2011, Kao began selling *Biozet Attack* liquid in Australia, where there is also a growing need for a laundry detergent that has high cleaning performance with less environmental impact. Australian consumers are also becoming more environmentally conscious

and the government has launched measures to encourage people to save water. Using the product design with less environmental impact that was developed in Japan, Kao contributes to the environmental issues Australia faces.



Better universal design with fine detailing enriches lives and responds to global society's expectations.

Kao's *Yoki-Monozukuri* is based on the "Consumer Driven" principle, and we regard "usability for everyone" as a perspective of particular significance.

The markings on the bottles that allow everyone to easily recognize the difference between a shampoo and a conditioner, which are in common use today, were devised from this principle.

As Japan's population ages and more men are participating in household chores and raising children and as more foreigners are living in Japan, there are increasing opportunities for a variety of people to use Kao products.

As a wider range of people use our products, we must create products that are easy to use and understand.

I always think that pursuing products that are easy to use for everyone, in other words, universal design, will lead to consumers' satisfaction.

This perspective can be also an important key word when Kao implements business globally. Creating products that are easy to use for everyone, going beyond lifestyles that vary from country to country, will be a more important task for us as a company that develops and manufactures products.

The thoughtfulness, commitment to hospitality and other sensibilities of Japanese people all contribute to a high level of universal design and *Yoki-Monozukuri* which is expected around the world.

Universal design is something Japan can be very proud of.

Kao will establish a clear policy of universal design to promote *Yoki-Monozukuri* and contribute to the cleanliness, beauty and health of people's lives globally.

Hiroshi Kanda

Representative Director
Senior Executive Vice President



History of universal design and Kao's efforts

■ General trend ■ Example of Kao's efforts



Specialist Comment

I have high hopes that Kao will make steady efforts and exercise global leadership.

As shown by the efforts put into the markings on the shampoo bottles, Kao sincerely listened to and applied the voice of a small minority of people with visual disabilities to a function which can be easily used by everyone, including children and elderly people. Kao's company-wide approach in developing universal design is highly valued by society. This effort has been adopted not only by other domestic manufacturers of daily necessities, but also incorporated into international standards—the first time this has ever happened regarding an initiative by a Japanese manufacturer. In addition, Kao's effort has triggered a thorough review of packaging and containers for food and other products across industrial borders.

I hope that Kao will continue to progress on their universal design efforts without being influenced by trends of the times. I further hope that Kao will exercise global leadership by continuously making new proposals.

Yasuyuki Hoshikawa

Representative Director
Secretary General
The Accessible Design Foundation of Japan



Kao's concept of universal design

Kao has promoted the development/manufacturing of products that not only satisfy their basic functions, but also give due consideration to "Accessibility," "Safety" and "Usability," which are the most basic elements of universal design.

Kao believes that these efforts will appeal to consumers' sensibilities, making them feel happy and develop a sense of attachment to the products when using them, while contributing to enriching their minds.

Educational activities to raise employees' awareness of universal design

Kao conducts educational activities through internal seminars in order to deepen its employees' understanding of the universal design concept and ensure it is reflected in product development and communications. In fiscal 2010, we held lectures on the latest trends of universal design and seminars by lecturers who have hearing disabilities, in which a total of more than 300 employees participated from various divisions.



Universal design seminar held on January 20

Kao universal design index



Enriching lives

- Comfortable and enjoyable use
- Becoming a part of daily life
- Appeals to consumers' sensitivity

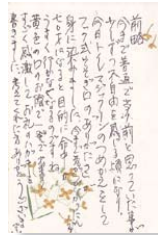
Consumers' Voices

Kao received various comments and opinions from users of its products.

Toilet Magiclean refill

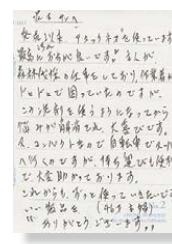
I am 70 years old and feel that even simple tasks are, little by little, becoming more difficult. I really appreciate the spout with side supports. I am thankful to the people who invented this.

Side support hooks over the opening of a bottle.



Attack Neo

I am a 46-year-old housewife. I have used *Attack Neo* since its launch. I go to the supermarket by bicycle. Now that the container is more compact, it is easier to buy and carry home. I will continue to use *Attack Neo*.



Promoting “eco together” with the aim of achieving 2020 Medium-term Objectives

In June 2009, Kao announced the Kao Environmental Statement and set the 2020 Medium-term Objectives. Kao published three “eco together” slogans: “eco together with consumers/customers,” “eco together with business partners,” and “eco together with society” and clearly expressed its stance toward the environment. Kao believes it is important to develop and provide products that have minimum impact on the environment when used by consumers. We also place great focus on environmental educational activities. In addition, Kao positively acts in cooperation with business partners in material procurement, manufacturing, distribution and sales as well as society in the course of carrying out environmental activities, and works towards the further expansion of “eco together” efforts.

In June 2011, Kao opened the Eco-Technology Research Center as a research and development center for next-generation environmental technologies.



Eco-Technology Research Center

2020 Medium-term Objectives and the review of the actual results in fiscal 2010

As areas closely connected to Kao's business operations, “CO₂,” “water,” “chemical substances,” and “biodiversity” have been established as priority themes and objectives set accordingly.

Kao Environmental Statement: 2020 Medium-term Objectives

1 CO₂

Consumer products: 35% reduction
(across product life cycle, per unit sales in Japan, relative to fiscal 2005*)

2 Water

Water consumption during product use: 30% reduction
(per unit sales in Japan, relative to fiscal 2005*)

3 Chemical substances

Active implementation of the Strategic Approach to International Chemicals Management (SAICM) to promote sound chemical management

4 Biodiversity

Implementation of measures to protect biodiversity through responsible raw materials procurement and other measures

* Figures for April 1, 2005–March 31, 2006

1 CO₂

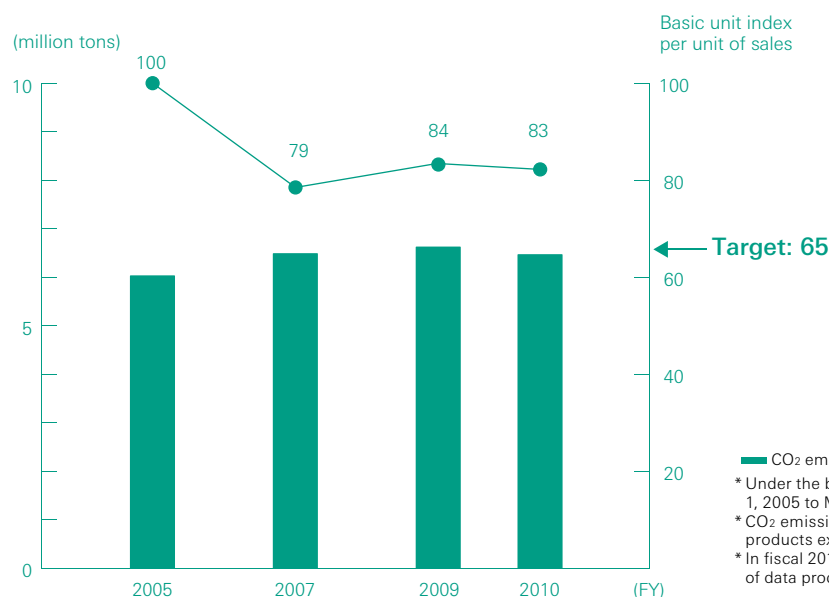
By lowering the environmental impact during the use of products and making containers more compact, Kao reduced CO₂ emissions (per unit sales) by 17% in fiscal 2010 compared with fiscal 2005.

In fiscal 2010, the *Attack Neo* and *New Beads Neo* laundering series, which require only a single rinse cycle, and the *Merit Shampoo*, which has superior suds-dissolving ability, contributed to water and electricity savings and reduced CO₂ emissions. As for containers and packaging materials, Kao also reduced CO₂ emissions by concentrating the contents of liquid detergents, making their containers more compact and increasing the number of items with special refill and

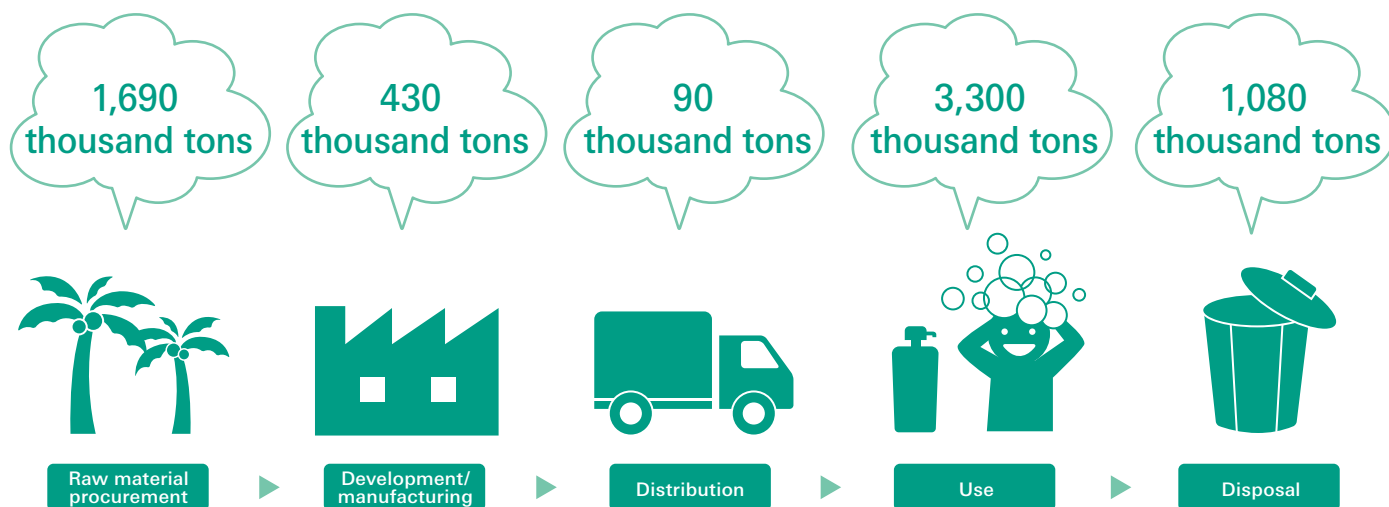
replacement options.

Kao will continue to focus on the innovation of *Yoki-Monozukuri* through the development of environmentally conscious products that adopt new materials as well as new manufacturing methods. Kao will also endeavor to thoroughly pursue energy savings and introduce renewable energy in the production and distribution processes and at offices.

■ Changes in CO₂ emissions throughout the life cycle of products



■ Overall CO₂ emissions* throughout the life cycle of Kao products (Fiscal 2010 in Japan)



Efforts of the Consumer Products Business towards the achievement of the medium-term objectives in terms of CO₂

Towards the achievement of the Kao's 2020 Medium-term Objectives, individual divisions act with an eye towards reducing CO₂ emissions and water consumption in the usage of products.

The Consumer Products Business is engaged in efforts to reduce the environmental impacts of products based on the following policies.

First, Kao is making efforts to reduce CO₂ emissions for containers and packaging by 10% through a reduction of materials and promoting replacement of materials. (To be achieved by fiscal 2012, relative to fiscal 2008.)

At the same time, targeting major brand products, we are promot-

ing product development that takes into consideration a reduction of CO₂ emissions and water consumption during use of products from a perspective of the entire product life cycle. We also attempt to reduce the environmental impact throughout the entire life cycle of products, from material procurement and manufacturing, to distribution, sales, use and final disposal.

In the future, we will bring into view not only the reduction of environmental impacts but also environmental changes surrounding consumers and incorporate values that will lead to greater safety and security into product development.

Reduction of CO₂ emissions for packaging

Kao works on the development of packaging that is easy to use and actively promotes the 3Rs (Reduce, Reuse, Recycle) of materials and the replacement of materials to lower its environmental impact.

As for efforts to reduce CO₂ emissions derived from packaging by 10% (please refer to the previous page), Kao achieved an approximately 3.9% reduction by fiscal 2010.

Reduction of individual plastic packaging materials including clear sacks and blister packs

Kao is promoting a shift to packaging specifications that use less plastic and the use of materials that emit less CO₂.



Introducing the new packaging in which a thin film is used in place of a plastic cover, CO₂ emissions for packaging materials are reduced by approximately 80%.



Outer cases that were traditionally plastic were replaced by paper ones. We reduced CO₂ emissions for outer cases by approximately 69%.

■ Changes in containers and packaging materials used (unit: tons)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Plastic	55,700	55,700	55,000	56,500	53,600
Paper	25,600	22,500	21,600	21,300	19,300
Cardboard	67,700	73,700	71,700	70,600	70,500
Others	3,600	3,400	2,700	2,300	2,000
Total	152,600	155,300	151,000	150,700	145,400

Increase in the number of items with refill options

Kao has spread refill products to relatively low-volume products including facial cleansers and cosmetics.



Kao adopted refill containers for skin lotion products in its prestige cosmetics series "ORIENTA." Compared with the original glass bottles, we succeeded in reducing CO₂ emissions by approximately 31%. So that the bottle can be refilled in a sanitary manner without spilling a drop, we have added twists to both the original bottles and the refill products.

Improving usability and reducing environmental impacts simultaneously

Kao has adopted a special container for hair dye that foams with one push of the bottle as seen with the *Blaué* foam hair color, etc. The improvement, which took place in spring 2011, included a redesigning of the part that makes the liquid foam; we also reviewed the bottle thickness and improved the pump function. We reduced the amount of plastic used for containers and reduced CO₂ emissions by approximately 32%.

Topics

Contributing to the development of the global metrics on packaging sustainability including refill products

As a member of the Consumer Goods Forum (CGF), Kao contributed to the development of the Global Packaging Metrics* for the products in cooperation with major CPG manufacturers, retailers, and suppliers of packaging materials. The CGF is a global forum consisting of retailers and manufacturers from around the world that aims to accomplish the Vision "Better Lives through Better Business." In the "GPP (Global Packaging Project)" of the CGF, Kao added the element of refill products, which currently

have much less impact on sustainability, because these products are still rarely found outside the Asian region.

* The standard metrics specifically designed for packaging materials. These metrics provide a basis for the comprehensive assessment of sustainability, including environmental assessments, social impact and safety assessments as well as an investigation into the labor environment throughout the entire life cycle of a product, from procurement of raw materials to production, transportation, sales, use, disposal and reuse.

2 Water

By developing water-saving products, Kao reduced water consumption (per unit sales) by 19% in fiscal 2010 compared with 2005.

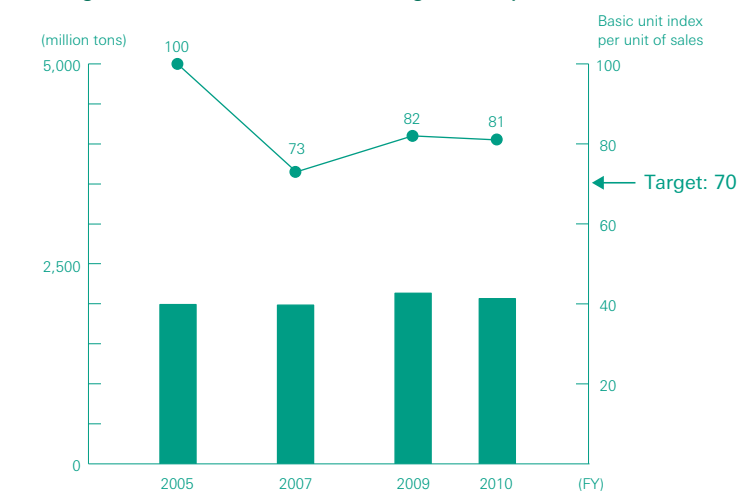
Following the release of ultra-concentrated liquid detergent *Attack Neo* which requires only a single rinse cycle, Kao launched *New Beads Neo* in January 2011 to expand the series.

In addition, *Merit Shampoo* that was improved in the spring of 2010 can reduce the amount of water used for rinsing the shampoo by approximately 20% due to its superior suds-dissolving ability.

In the meantime, Kao launched a page for “Eco-shampooing

Tips” on its website as an activity to raise people’s awareness of saving water. We will continue to work on the reduction of water used together with consumers.

■ Changes in water consumed in the usage of Kao products



■ Water consumed in the usage of Kao products — Basic unit index

* Under the basic unit index, water consumed in the usage of Kao products per unit of sales from April 1, 2005 to March 31, 2006 is defined as 100

* Water consumed in the usage of Kao products refers to the water consumed by consumers.

* In fiscal 2010, we improved the precision of data through systematization of data processing and also reviewed past data.



“Eco-shampooing”
<http://www.kao.co.jp/merit/eco/try.html>

3 Chemical substances

Kao actively works on the management of chemical substances in accordance with SAICM and endeavors to provide information that will lead to the safe use of products.

In accordance with the Strategic Approach to International Chemicals Management (SAICM), many countries have established and revised laws and regulations relating to chemical substances including EU’s REACH^{*1}. In Japan, the amended Chemical Substances Control Law was promulgated in 2009. Kao has always implemented consistent management of chemical substances by operating its own database, “Comprehensive Management System for Chemical Substances.” Kao, however, established a new system for quantity management by use in response to the amended Chemical Substances Control Law in May 2011. This has enabled Kao to conduct automatic tallying of substance quantity data by use that is necessary for the report on quantity for fiscal 2010 that will be implemented in April–June, 2011. In addition, Kao cooperates in promoting a voluntary effort for enhancing management of chemical substances that the Japan Chemical Industry Association launched in 2010 (JIPS)^{*2}.

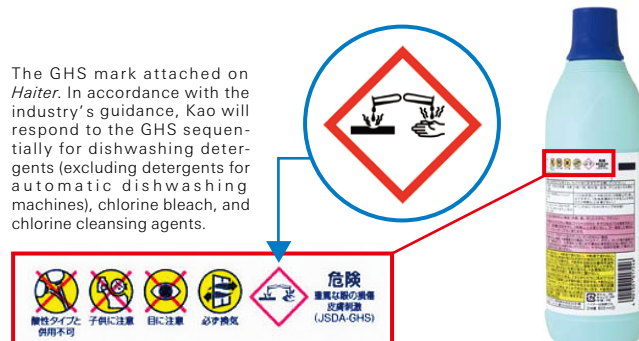
In January 2011, the Japan Soap and Detergent Association (JSDA) voluntarily introduced labeling based on the Globally Harmonized System of Classification and Labeling of Chemicals (GHS) that is advocated by the United Nations for some products of its member companies. Kao has implemented the GHS labeling for the targeted

products including *Kyukyutto* (dishwashing detergent) and *Haitei* (chlorine bleach) and will enrich safety information for consumers in response to global trends.

*1 REACH “Registration, Evaluation, Authorization and Restriction of Chemicals,” an EU regulation

*2 JIPS (Japan Initiative of Product Stewardship) is an effort based on the “principle for enhancing global management of chemical substances (GPS)” that the International Council of Chemical Associations (ICCA) is promoting in response to the decision of the SAICM.

The GHS mark attached on *Haitei*. In accordance with the industry’s guidance, Kao will respond to the GHS sequentially for dishwashing detergents (excluding detergents for automatic dishwashing machines), chlorine bleach, and chlorine cleansing agents.



4 Biodiversity

Taking into consideration the sustainable procurement of raw materials and other concerns, Kao formulated the Basic Policies on Conservation of Biodiversity in fiscal 2010.

Kao works towards full procurement of “sustainable palm and palm kernel oils” for biodiversity conservation.

In 2007, Kao became a member of the Roundtable on Sustainable Palm Oil (RSPO) and began purchase of certified palm oil under the Book and Claim system*, which is one of the systems certified by RSPO, in September 2010. Kao is also preparing to start the purchase of certified palm kernel oil while confirming the certified system and the stability of supply. In so far as a sufficient amount of oil can be procured, we will aim to completely switch to certified palm and palm kernel oils for all of the Group's needs by 2015.

* Book and Claim system: A system to handle credits of palm oil certified by RSPO. By purchasing “certification credits” issued in proportion to the amount of palm oil produced and registered by plantations certified by RSPO, users of palm oil are considered to have purchased the amount of certified palm oil corresponding to the amount of credits. This system strictly ensures that the same amount of certified palm oil as palm oil used is produced and urges plantations to produce certified oil.



Harvesting oil palm fruit bunches

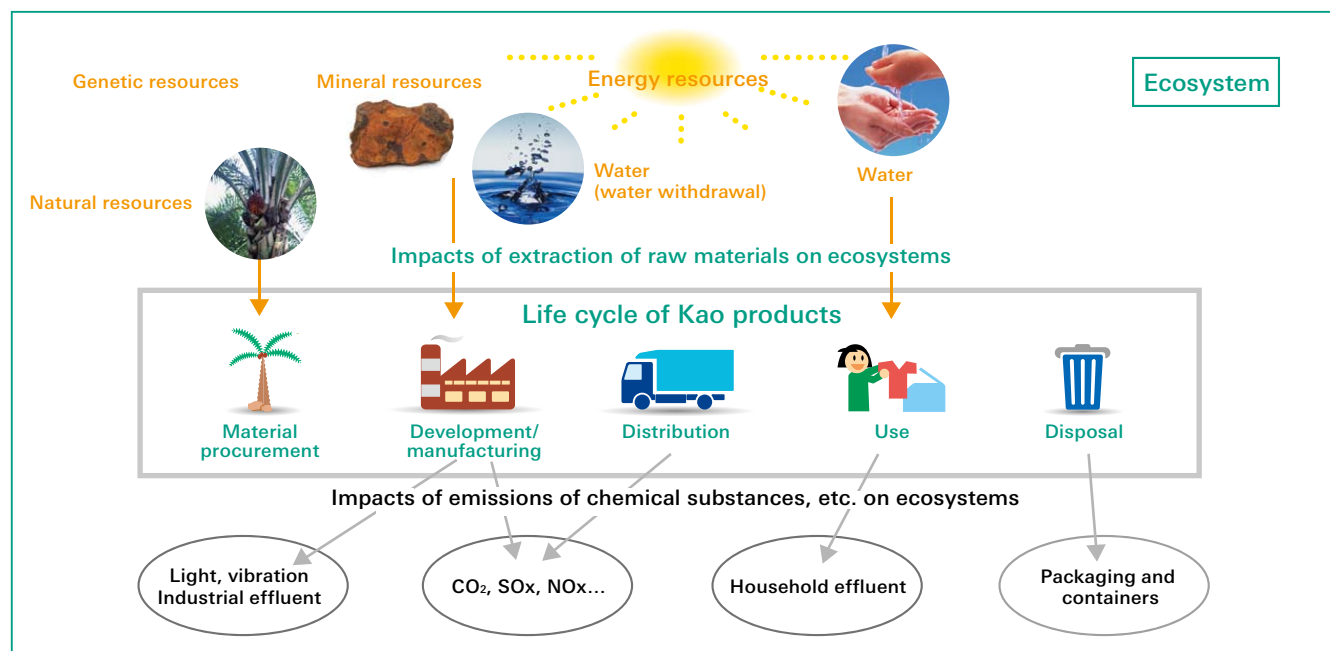
In cooperation with outside experts, Kao formulated the Basic Policies on Conservation of Biodiversity.

For Kao, which manufactures detergents and cosmetics using palm and palm kernel oils and naturally derived ingredients as raw materials, any loss of biodiversity and ecosystem destruction is closely related to the continuity of its business activities. Kao asked outside experts to implement “Kao's Risk Analysis on Biodiversity” and identify risks and issues of biodiversity as related to its business activities. Kao then formulated the “Basic Policies on Conservation of Biodiversity” in April 2011. The policies show Kao's intention to advance its

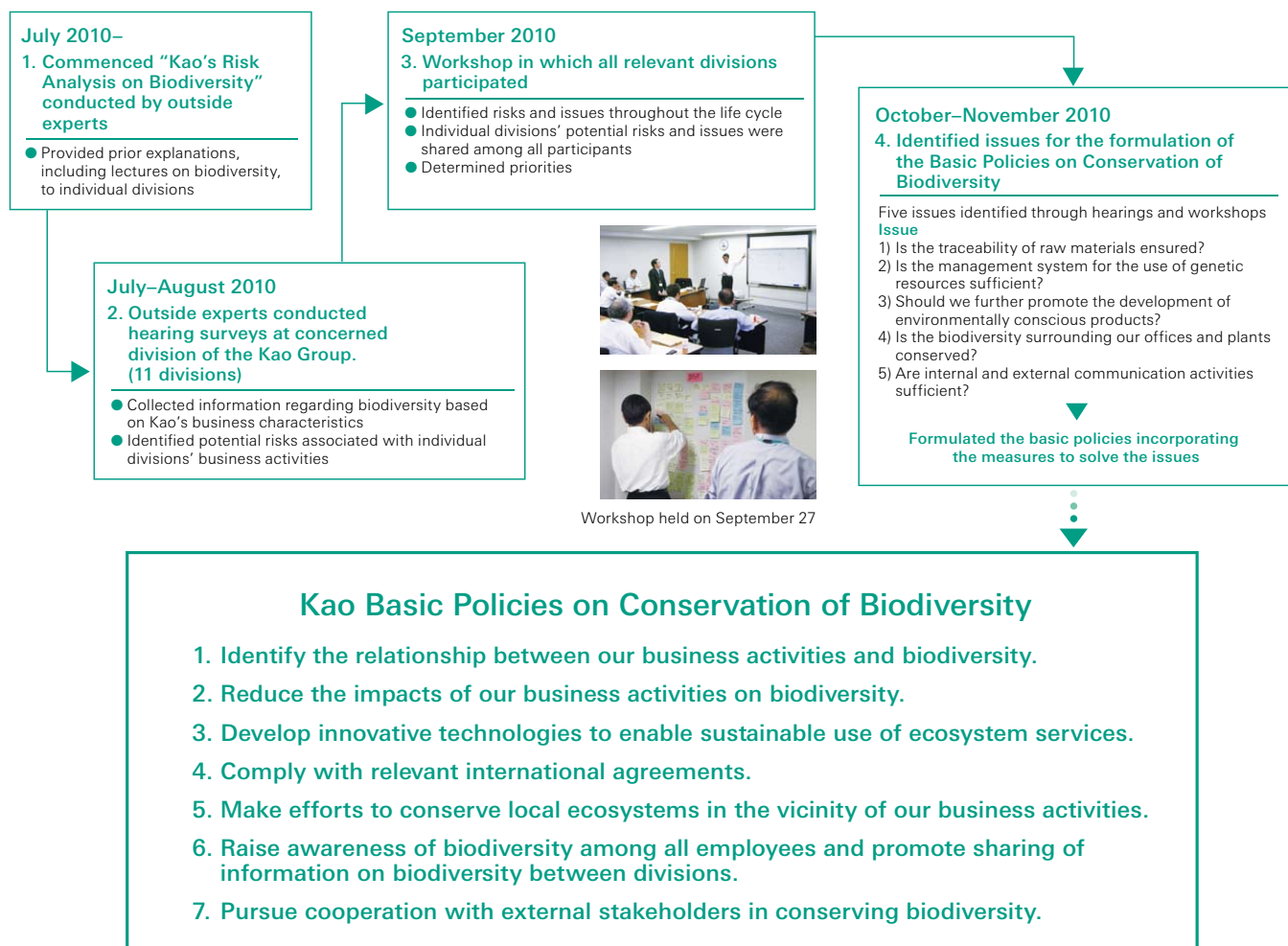
unique efforts in this area, including its own technological development as a means of contributing to biodiversity conservation. In the future, we will endeavor to spread the policies to the Kao Group as a whole and further promote technological development to promote the use of recyclable materials, the sustainable procurement of raw materials, and the development of methods to grasp and evaluate the impacts of our business on biodiversity.

Relationship between Kao's business activities and ecosystems

Kao's business activities benefit from biodiversity and have an impact on ecosystems in all phases of its products' life cycle.



■ Formulation of the Basic Policies on Conservation of Biodiversity



Specialist Comment

I hope that Kao’s challenge to biodiversity conservation will have ripple effects throughout the country.

I would like to welcome the fact that Kao formulated the Basic Policies on Conservation of Biodiversity. I myself was involved in part of the formulation process. Kao is a company that uses biological resources including palm oil as main raw materials, and I witnessed members’ very earnest discussions in formulating the policies and felt a strong sense of responsibility of Kao employees to both the environment and consumers.

As for specific activities, preempting the formulation of the Basic Policies, Kao began purchasing palm oil certified by RSPO last autumn, and I can appreciate that Kao is aiming at switching to a sustainable way of procurement for all of its palm oil. As for palm kernel oil, which is a main raw material of detergents and other products, the amount of certified oil in circulation is small, and therefore, it is difficult to make a quick switch. However, I really hope that Kao will switch to a sustainable way of procurement for all of its palm kernel oil through Kao’s high procurement ability and in cooperation with local producers. I expect to see this challenge by Kao as Japan’s largest detergent manufacturer to have ripple effects throughout the country.

In addition, I would like to pay special attention to the “technological development” expressed in the third of the Basic Policies as one of Kao’s strengths. Kao has already developed detergents and shampoos that can reduce the usage of water and has succeeded in largely reducing impacts on ecosystems in the usage of its products. I hope that Kao will further promote such technological development.

Dr. Naoki Adachi

CEO
Response Ability, Inc.



Fostering a corporate culture and developing people to realize global *Yoki-Monozukuri*

To achieve *Yoki-Monozukuri* that delivers products that fulfill the expectations of society in each country and region, diversity in the workplace is a must. With “Diversity & Inclusion” as keywords, Kao is promoting a corporate culture of building creative workplaces where a variety of employees can play an active role, while also working on human capital development around the world.



Towards the development of people who can play an active role globally —Project to promote diversity

In 2010, Kao launched a project to consider the promotion of diversity and had members from various divisions identify issues relating to the promotion of diversity within Kao. As a result, we confirmed that it is important that human resources with various values, regardless of their gender or nationality, can play an active role on a global basis while exercising their individual abilities. We also confirmed that in creating a corporate culture to promote this idea, the challenge is “sharing visions” and “improving communication skills.” Based on the above understanding, in fiscal 2011, we will promote educational activities and efforts to promote diversity in the workplace under a unified policy that covers the entire Kao Group.



Diversity Promotion
Project meeting held
on November 16

Specialist Comment

I hope that Kao will promote diversity as a strategy for growth towards true globalization.

For a company determined to develop its business in the global market, the requirements of ideal human resources are different than those that apply in Japan. It is always said that the HR composition of a company should represent the market it is doing business in. However, I think that a true Diversity & Inclusion (D&I) strategy should exceed mere “representation of the market.” It should accept people’s different values and build an inclusive workplace to develop creativity in the organization.

I appreciate Kao’s attitude of regarding diversity as an issue that is closely related to its business strategy and its efforts to promote diversity and inclusion. I hope that the issues identified by the project’s activities will be discussed even further, and their impor-

tance enthusiastically expressed by management. I also hope that in cooperation with managers on site, internal communications will be enhanced so that each employee will understand and accept the importance of diversity and inclusion. By doing so, I am confident that Kao will be a true global company.

Kimiko Horii

Co-founder, Advisor,
NPO GEWEL
(Global Enhancement of Women’s
Executive Leadership)



Promoting human capital development in a manufacturing setting—Global Techno School

The Global Techno School is a camp training program that lasts seven months and targets operators at production sites. Employees, who are mainly in their 30s from production sites around the world, gather at the Wakayama Plant to receive “mind and skill” training.

This training was introduced in April 1989 with the aim of fostering future leaders in developing/manufacturing products. In the “mind” training, trainees “find” themselves and gain insights by practicing tea ceremony and *zazen* (seated meditation), while they learn the history and culture of Kao’s *Yoki-Monozukuri*, the necessary attitude toward work and their seniors’ attitudes toward their job. In addition, Kao

provides trainees with “skill” training, including basic and professional education on production engineering, to foster human resources who can voluntarily identify problems and attempt to solve them.

Since the opening of the Global Techno School, 841 employees (including 70 foreign employees) have graduated from the program, many of whom are playing an active role as key players and leaders in their workplaces. English classes were added in fiscal 2008 as Kao endeavors to develop people who have the mind and skills that allow them to practice *Yoki-Monozukuri* not only in Japan but also globally.

Overall composition of Kao’s Global Techno School

Seminar activities	Practice and application of 5 <i>gen</i> *-ism	Seminars, etc., 47 days	Graduation ceremony	Dec.
Specialized knowledge Process (P)	Specialized knowledge Machinery (M)	Chemical engineering, process control, machine engineering, mechatronics	19 subjects (P), 22 subjects (M), 31 days	Jul.
General education and base for specialized education	Plant care, safety and disaster prevention, environmental quality, cost, SCM	37 subjects, 42 days	Intermediate parent meeting	
Learning to enhance personal qualities and acquire accomplishments	Handing Kao’s production spirit on to the next generation	18 subjects, 20 days	Entrance ceremony	May
Participants from overseas plants learn in the same class with simultaneous interpreters. Specialized lectures are provided in the Japanese language class and the English language class.		Total: 96 subjects, 140 days, 7 months		

*5 *gens*: *genba* (“field site”), *genjitsu* (“fact”), *genbutsu* (“actual thing”), *genri* (“doctrine”), and *gensoku* (“principle”)



Practical training about electricity

Employees’ Voices

“I will convey the mind and skill of Kao’s *Yoki-Monozukuri* to my colleagues on the job.”

Comment from a participant from China

When I heard I was going to participate in the training program—which all members in the production engineering department dream of participating in—I was too excited to put my feelings into words. At the same time, I felt anxious about whether I could adapt to the training.

However, with the well-developed training programs and the studies on advanced technologies, my worries disappeared immediately. Through the training, I learned high-level technologies, gained a positive attitude toward work, appreciated the effects of high work efficiency, and the spirit of studying diligently. The training also provided mental training programs including *zazen* (seated meditation) and the tea ceremony.



Zhang Liang
Engineering & Development Department
Kao Corporation Shanghai

Comment from the participant’s manager

As for Mr. Zhang Liang, who participated in the training in 2009, I hoped that he would learn advanced technologies and a new way of working and use the results in his work after the training.

In July 2009, I visited the Wakayama Plant and interviewed him during his training and soon realized that a positive change was occurring in him. His knowledge and abilities of production engineering and skills had made excellent progress. He was originally shy and was not good at getting along with people, but he had become very active and was able to improve his communication abilities.

As I expected, he has utilized what he learned through the training in his workplace and has since had a good impact on other employees.



Mao Jianquan
Engineering & Development Department
Kao Corporation Shanghai

Commitment to *Yoki-Monozukuri* 1 Integrity

Kao advances its Business Conduct Guidelines along with the times and attempts to introduce them globally.

Kao has placed emphasis on the principle of integrity since the company was founded. In promoting globalization, we have adopted Kao's Business Conduct Guidelines (BCG) as corporate action guidelines since 2003 for each individual employee to take appropriate action.

Implementing Integrity Workshop on a global basis

With the revision of the BCG in 2008, Kao developed the compliance workshop conducted for domestic Kao Group companies thus far into the universal Integrity Workshop, which was held throughout Asia, including Indonesia, Thailand, China and Vietnam. In fiscal 2010, we also implemented the Integrity Workshop in the European and American group companies including those in the United States, the United Kingdom, Spain and Mexico. Of nearly 11,300 employees working at overseas Group companies, approximately 4,600 employees have participated thus far.

For the workshop, employees who are key persons in each overseas Group company become trainers. The workshop includes case studies specific to each country and region, taking into account cultural and social differences so that participants can recognize integrity as a universal issue. In addition, we expanded the scope of targeted employees for the workshop from managers to non-managerial employees in a step-by-step manner so that all employees can fully understand the principle of integrity.

■ Overseas Kao Group: The status of implementation of Integrity Workshop (as of the end of March 2011)

Region	Number of workshops implemented	Number of participants
Asia/Oceania	141	3,833
Europe and the United States	40	783
Total	181	4,616

The workshop has been completed at Kao (Malaysia) Sdn. Bhd., Pilipinas Kao, Inc., Kao (Hong Kong) Ltd., Kao (Taiwan) Corporation, Kao (Singapore) Private Limited, and Kao (Australia) Marketing Pty. Ltd.

Continuously reviewing the content of the BCG

The role which we are expected to play by society changes constantly as society becomes more aware of the importance of sustainability. In response to such change, Kao announced its Environmental Statement in 2009 to clarify its intention to engage in environmentally conscious corporate activities more actively. As a development in the international community, the ISO 26000, comprehensive guidelines for social responsibility, was published in 2010, and companies' social responsibility continues to expand.

Based on this background, Kao revised the BCG in April 2011 with the aim of adopting the Kao Group's global standard version. We will introduce a Japanese version of the Integrity Workshop that was conducted in Asia, Europe and the United States to Japan and attempt to promote sharing of the revised BCG across the entire Kao Group.



Integrity Workshop held at Kao Brands Company on May 14



Integrity Workshop held at Kao Specialties Americas LLC on May 10

Background to the Revision of the BCG in April 2011

- The revision of the Kao Way (April 2010): Increased emphasis on respect for diversity and contribution to sustainability
- Environmental Statement (June 2009), measures for biodiversity (COP10 held in October 2010)
- The revision of Nippon Keidanren's Charter of Corporate Behavior (September 2010)
- Issuance of ISO 26000 (guidance on social responsibility) (November 2010)

Commitment to Yoki-Monozukuri ② Supporting work-life balance

Towards the creation of a positive working environment for everyone

Kao is focused on creating a working environment where individual employees can exercise their abilities and also assist them in achieving balance between work and their personal life.

As for efforts in Japan to promote a good work-life balance, we have enriched systems to support child rearing and nursing care and endeavored to raise awareness among employees and create a corporate culture that encourages the uptake of these systems.

For overseas Kao Group companies, we have also promoted the creation of a better working environment, through the improvement of various support systems and other initiatives.

Efforts at Kao Group companies in Japan

Child care support

To achieve a good balance between work and child rearing, it is important to create systems that support child rearing and provide employees with emotional support. Kao holds a lunch meeting called “Mummy Lunch” as a venue for working mothers, providing the opportunity for participants to share their worries and a round-table talk with a female executive who has experienced child rearing. In addition, Kao holds a seminar to help workers who have taken child-care leave return to work smoothly. To urge male employees to participate in child rearing, Kao holds a “Child-care management seminar for fathers” and attempts to instill the idea that “men should also participate in raising children in cooperation with women.”



Mummy Lunch held on August 27 and the “Equal Partnership News Plus” making a feature of “ikumen”
* A father who is actively involved in child-raising



Nursing care support

Based on a prospective analysis that showed one out of every five or six employees will need nursing care support in the future, Kao has been advancing a system to support nursing care. A wide-ranging interview survey revealed nursing care weighs differently on employees' minds and carries large emotional weight. Therefore, Kao has formulated policies to support nursing care in the recognition that it could be required by anyone in the organization. Kao will endeavor to enhance the nursing care support system further and create a corporate culture where all employees know basic information on nursing care and internal and external consultation services and can easily access the system through educational activities including the provision of lectures on nursing care and the publication of the newsletter.

“Equal Partnership News Plus” is an in-house magazine that is distributed to employees. It features stories that deepen employees' understanding of nursing care.



Efforts at overseas Kao Group companies

Kao Industrial (Thailand) Co., Ltd.

Kao Industrial (Thailand) Co., Ltd. has been promoting a “Happy Workplace” campaign since fiscal 2010. Based on the idea that the most valuable thing for an organization is “people” and that it is important that employees are mentally and physically healthy, the company has made various efforts, including the implementation of health management and welfare programs and social action programs. In fiscal 2010, the company held a weight-loss contest and a sporting event and expanded the space for relaxation. To improve these activities, the company has placed a suggestion-box named “Happy Tree” so that employees can submit their ideas and also conducts a related survey in order to understand what employees are thinking in this area.

Kao Brands Company (USA)

Kao Brands Company provides various programs centered on achieving a work-life balance. The company has introduced flexible working arrangements, such as flexible working hours, compressed work weeks and a telework system that allows employees to work from remote offices. The company has also established a part-time working system to shorten working hours for those employees who require more time at home for family purposes. In addition the company offers family leave which offers time off for new parents, including those who adopt, with a number of male employees taking advantage of paternal leave. Employees who express a desire to help within the community are also given time to perform volunteer activities during work hours.

Endorsement of Women's Empowerment Principles

Kao announced official support for “Women's Empowerment Principles*” and Motoki Ozaki, President and CEO of Kao, signed the CEO Statement of Support for the initiative in September 2010. We intend to utilize the Women's Empowerment Principles to propel our business and help build a society in which we can maximize the capability of each and every individual.

* The Women's Empowerment Principles were jointly formulated by the United Nations Global Compact and the UN Women (United Nations Entity for Gender Equality and the Empowerment of Women).



Commitment to *Yoki-Monozukuri* 3 Co-existence with local communities

Kao aims to be an essential partner for local communities.

Takuo Goto

Representative Director
Senior Executive Vice President
Kao Corporation



In 1964, Kao established its first overseas manufacturing base in Thailand. Since then, we have conducted overseas business in accordance with the following three guiding principles: (1) Contribute to the economic development of the country and the improvement of the people's lives through our business; (2) Transfer the most advanced technology to the partner country and contribute to the improvement of their technological level and the promotion of their industry; and (3) Reinvest as much as possible of the profit earned in a partner country in that country. In addition, we have always considered the impacts of our production activities on local communities in terms of employment, safety and disaster prevention and environmental conservation as well as our social responsibility, and we have earnestly strived to live in harmony with local communities.

In 1977, we established Philipinas Kao, Incorporated (PKI) in the Philippines, the world's No.1 coconut oil producer. Here we experience a major shift in the business environment, trig-

gered by events such as the soaring prices of coconut oil due to the drought in 1983. However, Kao made a business judgment that PKI would maintain full operations of fatty alcohol production and Kao Japan would reduce production of the same in order to maintain the employment situation at PKI's plant. Because we thought it would demonstrate Kao's solidarity. Consequently, we were able to win the trust, not only of PKI employees and their families, but also of Aboitiz & Co., Inc., the joint venture partner at the time, and the Philippines Government.

In the future, we will use resources carefully with a minimum waste, promote production activities that place less burden on the environment, and generously put our technologies and know-how of developing/manufacturing products into our overseas subsidiaries to contribute to the development of people working at the plants and their local communities. Kao aims to be an essential partner for local communities.

Provision of employment opportunities and improvement of the lives of local people

Philippines

Support for employee shuttle bus service

The plant of Philipinas Kao, Inc. (PKI) is located 35 kilometers away from the city of Cagayan de Oro where many employees live and is not readily accessible via public transportation. Therefore, the company provides a shuttle bus service for employees, making their commute more convenient and comfortable. This service is operated by a cooperative union that is managed by employees in order to help employees live a better life. This service has not only achieved a high degree of satisfaction among users, but has also led to the creation of new jobs by hiring local residents as shuttle bus drivers.

Support for dental and medical checkups

Philipinas Kao, Inc. (PKI) has implemented free dental and medical checkups for residents in the immediate area of its plant since 2008. PKI requests the government to send volunteer dentists and doctors and provides medical products including antibiotics and cold medicines. PKI employees participate as volunteers and distribute medical products under the supervision of employees who have a license to work as a pharmacist. They also support clerical work. In 2010, about 700 people received checkups.



Volunteers from PKI and local administrative staff



Medical checkups for children



A PKI employee serves as an assistant during a dental checkup.

Supporting the good health of Asian women

Countries and regions in Asia

Since 1978 when it first launched its sanitary products, Kao has provided various kinds of support to pre-pubescent girls, their parents, and elementary schools so that they will readily face their first menstrual cycle with confidence based on correct knowledge. This activity has grown not only in Japan but also in other Asian countries, and Kao contributes to women's health by providing menstruation education in cooperation with local elementary and junior high schools.



Vietnam

In cooperation with local hospitals, Kao Vietnam Co., Ltd. provides a workshop program for young female students so they may experience their first menstrual period without anxiety. The program incorporates advice from doctors and psychologists, games, an explanation on sanitary napkins and other elements. In 2010, 9,500 students participated in the workshop.

It is often the case that menstruation education programs implemented by the Vietnamese educational administration targets students who have already had their first period, and information sources including the Internet and word of mouth sometimes provide inaccurate information about menstruation. Thus, the program targeting female students who have not yet had their first period that is implemented by Kao Vietnam at elementary and junior high schools in Ho Chi Minh City has received praise from school officials. The program is also highly evaluated because it provides not only the opportunity for menstruation education but also an opportunity for students to come together outside regular school curriculum.



Advice from doctors



Explanation on sanitary napkins



Indonesia

In Indonesia, local governments only provide menstruation education programs in some private schools. P.T. Kao Indonesia has provided menstruation education targeting second-year junior high school students in cooperation with NPOs since 2000, an explanation of menstruation using educational materials, including menstruation calendars. In 2010, we implemented the program at about 2,200 schools with the participation of about 240,000 people.



Menstruation education using video



Thailand

Kao Commercial (Thailand) Co., Ltd. has implemented menstruation education mainly in local women's schools since 1997. A total of one million people have participated thus far. We provide information on the menstruation cycle through the use of leaflets, videos, games, and we have received very favorable feedback on this program.



Explanation of the menstruation cycle



Malaysia

Kao (Malaysia) Sdn. Bhd. has provided educational posters and learning materials on menstruation to local junior high schools since 1992. At present, dedicated employees do the rounds of about 200 schools per year.



Students listening to a presentation given by a Kao employee



Hong Kong

Kao (Hong Kong) Ltd. has implemented menstruation education for more than five years. In cooperation with other companies, we send nurses to schools to deliver lectures on menstruation and provide pamphlets on menstruation. In 2010, we implemented the program at 145 schools. We have provided this education program at more than 700 schools thus far.



Students holding pamphlets

Commitment to *Yoki-Monozukuri* ④ Contribution to the global environment

Reporting reduction of environmental impact results for fiscal 2010

To help realize the sustainability of the Earth and society in all aspects of its business activities, Kao has long been actively implementing activities to reduce its environmental impact, including in offices and distribution divisions. It is also committed to energy savings through streamlining manufacturing processes in production activities and recycling of waste.

Global warming prevention

Through measures such as the introduction of energy-saving equipment and streamlining of manufacturing processes, Kao achieved a reduction of 21 thousand tons of CO₂ on a year-on-year basis in terms of GHG emissions resulting from business activities.

At production sites, Kao continued to promote the switch from absorption chillers to turbo refrigerators, and chillers at the Kawasaki Plant were replaced with turbo refrigerators. In addition, we have made some new attempts and introduced heat-pumps that boil water using the heat of air in the manufacturing facility of sterile hot water at the Sumida Complex.

We have also put energy into initiatives related to steam and compressed air, which accounts for a high proportion of energy consumption. As for steam, we have promoted the switch to high-efficiency boilers, and rationalized their use by conducting a thorough inspection of steam traps and promoting heat recovery from used steam. As for compressed air, we have cut waste in the manufacturing process and improved the operation, such as by controlling the number of compressors.

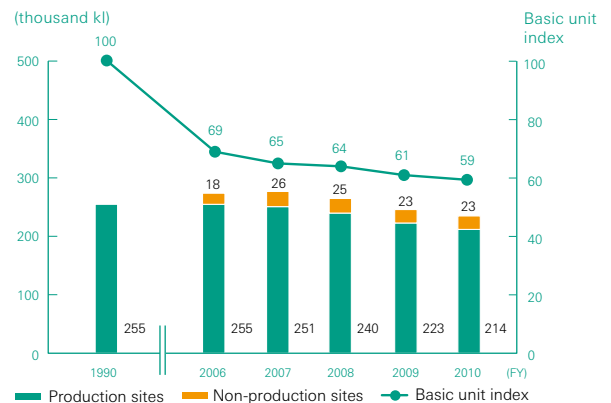
These activities resulted in a reduction in total energy consumption of 8,000 kl on a year-on-year basis at production sites in fiscal 2010. In terms of energy consumption in the basic unit index, this represents an improvement of two points on a year-on-year basis and 41 points compared with fiscal 1990, largely exceeding the objective of the Japan Chemical Industry Association (an improvement of 20 points).

In distribution, we have implemented various measures, including further promotion of a modal shift of transportation and reallocation of distribution facilities. These activities resulted in achieving a 0.3% reduction in transportation fuel consumption (basic unit) on a year-on-year basis. In addition, the Kawasaki Plant and Ehime Sanitary Products were accredited with an Eco-Ship Mark.

At offices, we continued to thoroughly implement the Cool-Biz and Warm-Biz campaigns while promoting energy savings related to office equipment. In addition, we reduced the number of elevators in operation (excluding the morning rush hours) and introduced the BEMS (Building and Energy Management System) to reduce energy wastage.

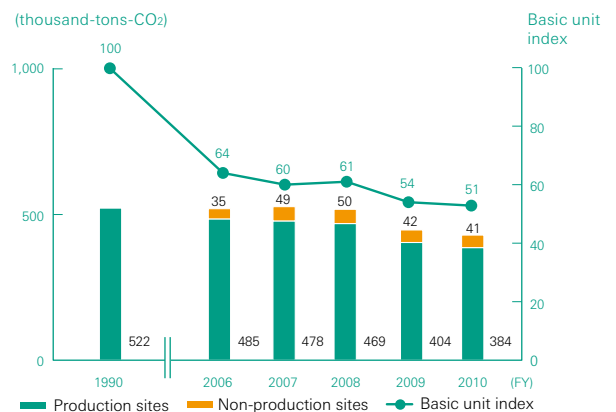
These efforts resulted in a reduction of 21 thousand tons of greenhouse gas emission as a result of business activities on a year-on-year basis.

Changes in energy consumption

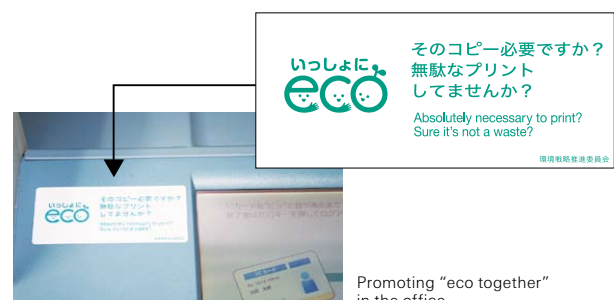


* For values in the unit value added index, production site data is used for calculation to ensure data continuity from past years.

Changes in GHG emissions



* For values in the unit value added index, production site data is used for calculation to ensure data continuity from past years.



Effective utilization of water resources and wastewater control

Water consumption and the wastewater volume decreased by 825 thousand tons and 764 thousand tons respectively through the promotion of the efficient use of cooling water.

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

Water consumption and the wastewater volume in fiscal 2010 decreased by 825 thousand tons and 764 thousand tons respectively. These reductions were largely attributed to the promotion of the efficient use of cooling water at the Wakayama Plant.



Using rainwater to water green spaces

Optimum management of waste materials

Kao achieved zero emission with the final disposal rate of 0.04% at production sites.

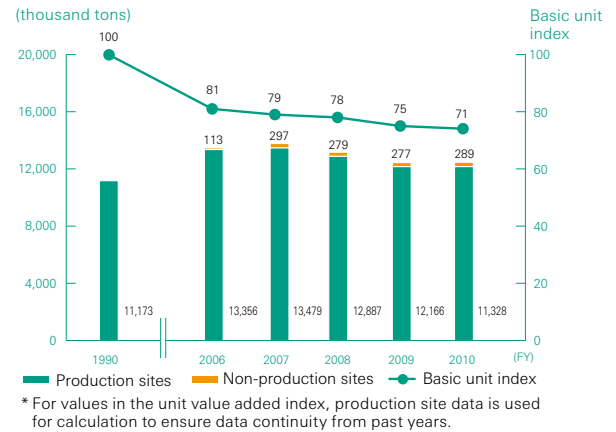
Towards the creation of a recycling-oriented society, Kao promotes waste reduction projects in the order of priority of reduce, reuse and recycle and makes all-out efforts not only to reduce the generation of waste but also to reduce final waste disposal to close to zero. While we already achieved our targets for fiscal 2010 ahead of schedule in fiscal 2009, to reduce the final disposal volume to 150 tons or less and the final disposal rate* to 0.1% or less for all Kao Group production sites, we further reinforced our efforts and succeeded in reducing the final disposal amount to 53 tons and the final disposal rate to 0.04%. In addition, waste generation per unit of production output (amount of waste generated per total production) stood at 98.0% of the previous year's level, and thus we were able to reduce the level below the 99.5% or less target level.

The final disposal volume of Kao, including non-production offices, amounted to 193 tons, a reduction of 104 tons on a year-on-year basis.

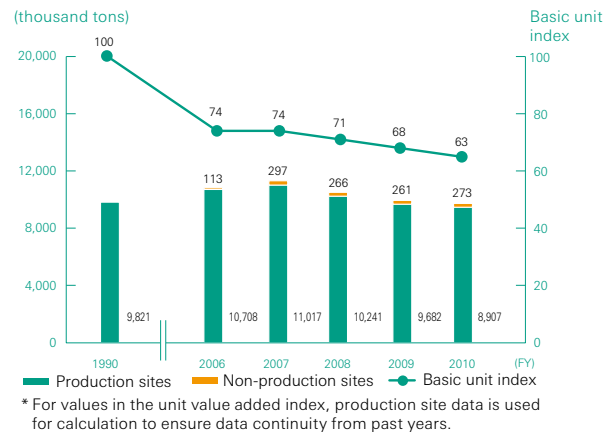
We will enhance our efforts toward zero emissions, establish objectives even at distribution divisions, and further promote our efforts by tightening up the separation of waste and reviewing contracted waste-disposal companies.

* Final disposal rate (final disposal amount/waste generation times 100). Kao's "zero emission" definition is "final disposal rate being at 0.1% or less."

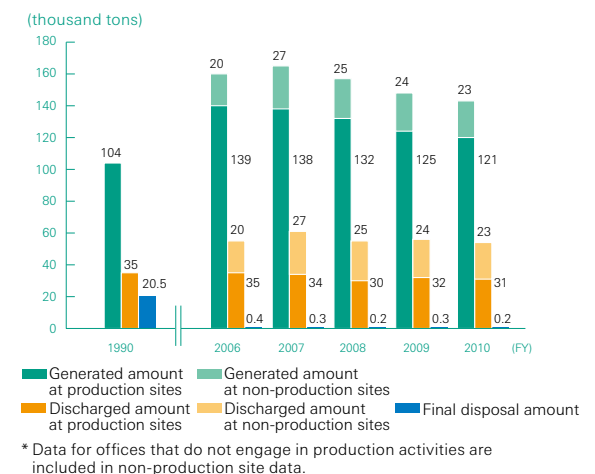
■ Changes in water consumed



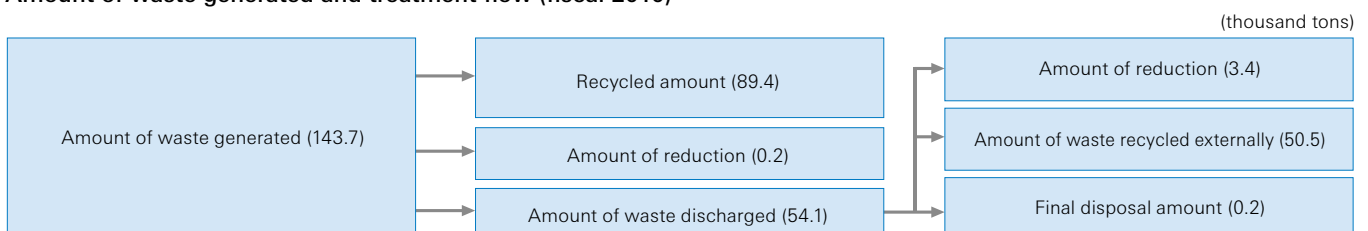
■ Changes in wastewater amount



■ Changes in waste amounts (production sites)



Amount of waste generated and treatment flow (fiscal 2010)



Recognition by Outside Organizations in Fiscal 2010

Major external corporate recognition and commendations in fiscal 2010 are listed below:

	Date of award	Awarded division	Award name and description	Organization
In Japan	April 12, 2010	Kao Corporation Tochigi Plant	"Accident-Free Record in Class 3" from the Director-General of the Labour Standards Bureau, the Ministry of Health, Labour and Welfare (MHLW)	The Labour Standards Bureau, Ministry of Health, Labour and Welfare
	May 28, 2010	Kao Corporation	"The Tenth Environmental Technology Award" from the Kinki Chemical Society for the development of modified polylactide resin	The Kinki Chemical Society
	July 8, 2010	Kao Corporation	"The 4th Responsible Care Award" given in recognition of PRTR substances management and reduction of their emissions	The Japan Responsible Care Council (JRCC)
	October 7, 2010	Kao Corporation	<i>Attack Neo</i> won "Japan Star Award (Director-General of Manufacturing Industries Bureau, the Ministry of Economy, Trade and Industry Award)" in the 2010 Japan Packaging Contest	Japan Packaging Institute
	October 18, 2010	Kao Corporation	Selected as "Top Public Disclosure Company" in the Carbon Disclosure Project 2010 at the CDP 2010 Japan briefing	Carbon Disclosure Project (CDP)
	November 15, 2010	Kao Corporation	<i>Attack Neo</i> won the Minister's Prize of the Ministry of the Environment in the 7th Eco-Products Awards 2010	Eco-Products Awards Steering Committee
	January 5, 2011	Kao Corporation	Dishwashing detergent, <i>Cucute Hand Beauty</i> , won Nikkei Marketing Journal Awards for Superiority in 2010 Nikkei Superior Products and Services Awards	Nihon Keizai Shimbun
	February 3, 2011	Kao Corporation	The 16th Disclosure Award (FY 2010)	Tokyo Stock Exchange Listed Company Accreditation Committee
	February 4, 2011	Kao Corporation Kawasaki Plant, Ehime Sanitary Products Company Limited	Accredited with an Eco-Ship Mark (FY 2010)	Eco-Ship Modal Shift Project Executive Committee
	February 11, 2011	Kao Corporation Kashima Plant	Promotion of gender equality employment recognized and commended by Kamisu City (FY 2010)	Kamisui City, Ibaraki Prefecture
	March 16, 2011	Kao Corporation	Selected for five consecutive years as one of the World's Most Ethical Companies 2011	Ethisphere Institute
Overseas	April 27, 2010	Molton Brown Ltd.	Recognized as the "Best Gift in Kind Supporter" in the Business Supporter's Celebration Awards of Cancer Research UK	Cancer Research UK
	July 5, 2010	Kao Chemical Corporation Shanghai	"Energy Conservation Award" from Shanghai City	Shanghai City (Economic Information Council of Minhang District, Shanghai City)
	September 25, 2010	Pilipinas Kao, Inc.	The mangrove regeneration project was accredited by the Philippine's Department of Environment and Natural Resources.	Department of Environment and Natural Resources (Philippines)

Major global SRI indexes in which Kao has been included

Kao has been repeatedly selected for several SRI indexes, including the FTSE4Good Global Index, a leading socially responsible investment index that was developed by the UK-based FTSE Group.



FTSE4Good Index Series website: http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp

MS-SRI (Morningstar SRI) website: <http://www.morningstar.co.jp/sri/index.htm>

Contents of the Booklet and Full PDF Version

The Sustainability Report 2011 (full PDF version) provides detailed information on various activities carried out by individual Kao Group companies. This booklet (The Sustainability Report 2011 —Summary—) is a digest version that summarizes the main contents of the full PDF version.
http://www.kao.com/jp/en/corp_csr/pdf_reports.html

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	Product Quality Management	● Policy/goals ● Structure ● Pursuing safety from a scientific perspective through consideration of actual use ● Quality management activities throughout the entire product life cycle ● Implementing an overhaul of quality issues ● Conducting quality management audits ● Offering board member awards for product quality management activities ● Introducing category notations into ultra-concentrated detergents and softeners to improve identification ● Implementation of thorough product quality management for food products ● Disclosing information on country of origin and allergenic substances contained in food products on Kao's website ● The latest situation and future of <i>Econa</i>	● P30-32	
Responsibilities to Stakeholders	Responsibilities to Consumers	● Policies/structure ● Goals ● Contributing to the enrichment of people's lives by holding a "cleaning seminar" ● Providing a seminar to teach the importance of hand washing at elementary schools by sending Kao employees as instructors ● Providing information on the website	● P34-35	
	Responsibilities to Corporate Customers	Consumer Products Business ● Policies/goals/structure ● Introducing Kao's sustainability efforts to retailers Chemical Business ● Policies/goals/structure ● Continuously implementing information exchange meetings with sales distributors Professional-Use Products Business ● Policies/goals/structure ● Implementing infection-control support activities for persons engaged in medical work and nursing care	● P36-37	
	Responsibilities to Employees	Human Capital Development ● Policy/goals ● Implementation of the Global Human Capital Development Conference ● Implementation of various common global training programs ● Launching global rollout of Management Training ● Practice of the Kao Way and sharing examples among all Group companies ● Fair and transparent evaluation and compensation ● Implementing activities towards the achievement of a workplace that utilizes diversity ● Promoting the employment of people with disabilities ● Policies for re-employing retired employees (Column) Commitment to <i>Yoki-Monozukuri</i> 2 : Supporting work-life balance	● P38-40 ● P41	● P22
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		Work-life Balance ● Supporting male employees' efforts to participate in child care ● Promoting appropriate working hours ● Supporting proactive future plans		
		Consideration for Employees' Health and Human Rights ● Issuing "Kao Group Health White Paper for Fiscal 2010" ● Promoting creation of a workplace free from discrimination and harassment		
		Occupational Safety, Process Safety and Disaster Prevention ● Policy/structure ● Goals ● Occupational accidents in 2010 ● Drills for large-scale disasters and Kao's response to the Great East Japan Earthquake ● Implementing training programs for safety, disaster prevention and environmental management ● Occurrence of small fires in 2010		
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	Environmental activity targets and results	● Fiscal 2010 results and targets for the future (Responsible Care Activities)	● P53	
	Global Warming Prevention	● Promoting the introduction of energy-efficient equipment and streamlining of manufacturing processes ● Reducing environmental impact at offices ● Reducing environmental impact in distribution ● Activities at overseas production sites (China) ● Selected as a leading company in information disclosure in the CDP 2010 report ● Installation of a second solar panel system at a distribution center	● P55-56	● P25-26
	Appropriate Management of Chemical Substances	● Policies/goals/structure ● Meeting the REACH chemical regulation in the EU ● Reinforcement of information management of chemicals ● Promotion of consolidated management of packaging materials information ● Reduction of emissions of chemical substances subject to the PRTR Law ● Management of VOC emissions based on voluntary activity goals ● Proper storage and disposal of PCBs	● P57-58	
	Optimum Management of Waste Materials	● Efforts toward zero emissions ● Waste reduction efforts at Ehime Sanitary Products ● Waste and recycling governance	● P59	● P26
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	Measures for Biodiversity	● Policies ● Promoting collaboration with other companies ● Introduction of Kao's activities at the Interactive Fair for Biodiversity ● "Kao Creating Forests for Everyone" program ● Participation in "Enterprise Forest Project" ● Sponsoring "Forests for the Future Project in Thailand" ● Mangrove regeneration in the Philippines	● P61-62	
	Environmental Communication	● Policies/goals ● Environmental and safety site reports issued by plants and affiliated companies ● A meeting for exchange on environment, safety, and disaster prevention issues ● Environmental education at schools and plants ● Nationwide Environmental Fair Campaign ● Eco-Products 2010 ● First Kao International Environment Painting Contest for Children	● P63-64	
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Kao Group Overview

Kao Corporation

Company Profile (as of March 31, 2011)

Company name: Kao Corporation
 Head office: 14-10, Nihonbashi Kayabacho
 1-chome, Chuo-ku, Tokyo
 Founded: June 1887
 Incorporated: May 1940
 Paid-in capital: 85.4 billion yen
 Number of employees: 5,924 (34,743 on a consolidated basis)
 Representative: Motoki Ozaki, President & CEO

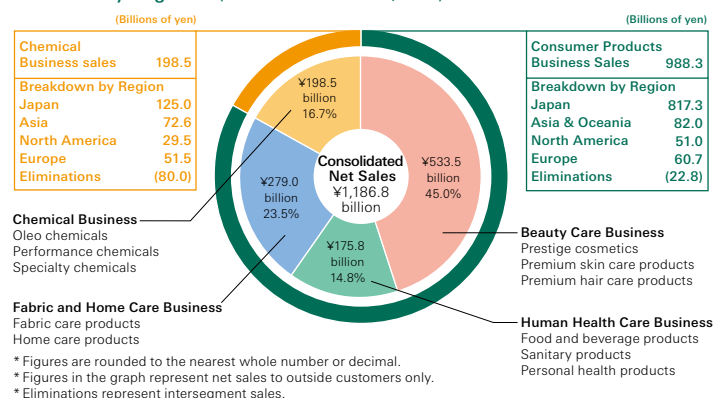
* Figures are rounded to the nearest whole number or decimal.

Net Sales and Income (year ended March 31, 2011)

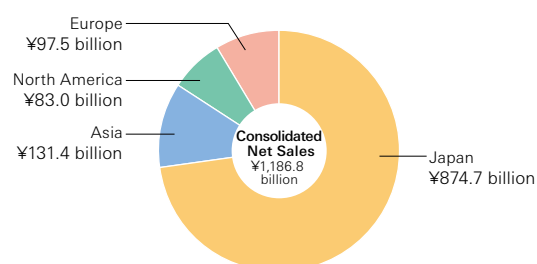
Consolidated net sales: 1,186.8 billion yen
 Consolidated operating income: 104.6 billion yen
 Consolidated ordinary income: 103.3 billion yen
 Consolidated net income: 46.7 billion yen

* Figures are rounded to the nearest whole number or decimal.

Net Sales by Segment (Year ended March 31, 2011)



Net Sales by Region (Year ended March 31, 2011)



Principal Subsidiaries and Affiliates

The Netherlands

KPSS Nederland B.V. ■

United Kingdom

Kao Brands Europe Ltd. ■
 KPSS (UK) Ltd. ■
 Molton Brown Ltd. ■

Germany

KPSS-Kao Professional Salon Services GmbH ■
 Guhl Ikebana GmbH ■
 Kao Corporation GmbH ■
 Kao Chemicals GmbH ■

Spain

Kao Chemicals Europe, S.L. ■
 Kao Corporation S.A. ■

Switzerland

KPSS AG ■
 Kanebo Cosmetics (Europe) Ltd. ■

China

Kao (China) Holding Co., Ltd. ■ ■ ■ ■ ■
 Kao Corporation Shanghai ■ ■ ■ ■
 Kao Commercial (Shanghai) Co., Ltd. ■ ■ ■ ■
 Shanghai Kanebo Cosmetics Co., Ltd. ■ ■ ■ ■
 Kao Chemical Corporation Shanghai ■ ■ ■ ■
 Kao Trading Corporation Shanghai ■ ■ ■ ■
 Kao (Hong Kong) Ltd. ■ ■ ■ ■

Vietnam

Kao Vietnam Co., Ltd. ■ ■

Thailand

Kao Industrial (Thailand) Co., Ltd. ■ ■ ■ ■ ■
 Kao Commercial (Thailand) Co., Ltd. ■ ■ ■ ■ ■
 Kao Consumer Products
 (Southeast Asia) Co., Ltd. ■ ■ ■ ■ ■

Malaysia

Kao Soap (Malaysia) Sdn. Bhd. ■ ■ ■ ■ ■
 Kao (Malaysia) Sdn. Bhd. ■ ■ ■ ■ ■
 Fatty Chemical (Malaysia) Sdn. Bhd. ■ ■ ■ ■ ■
 Kao Plasticizer (Malaysia) Sdn. Bhd. ■ ■ ■ ■ ■
 Kao Oleochemical (Malaysia) Sdn. Bhd. ■ ■ ■ ■ ■

Singapore

Kao (Singapore) Private Ltd. ■ ■ ■ ■ ■

■ Beauty Care Business ■ Human Health Care Business ■ Fabric and Home Care Business ■ Chemical Business

Beauty Care Business

In the Beauty Care Business, Kao delivers a wide range of products from prestige cosmetics designed to satisfy each consumer's desire for beauty to skin care products including facial and body wash and hair care products, such as shampoo and conditioner.

Fabric and Home Care Business

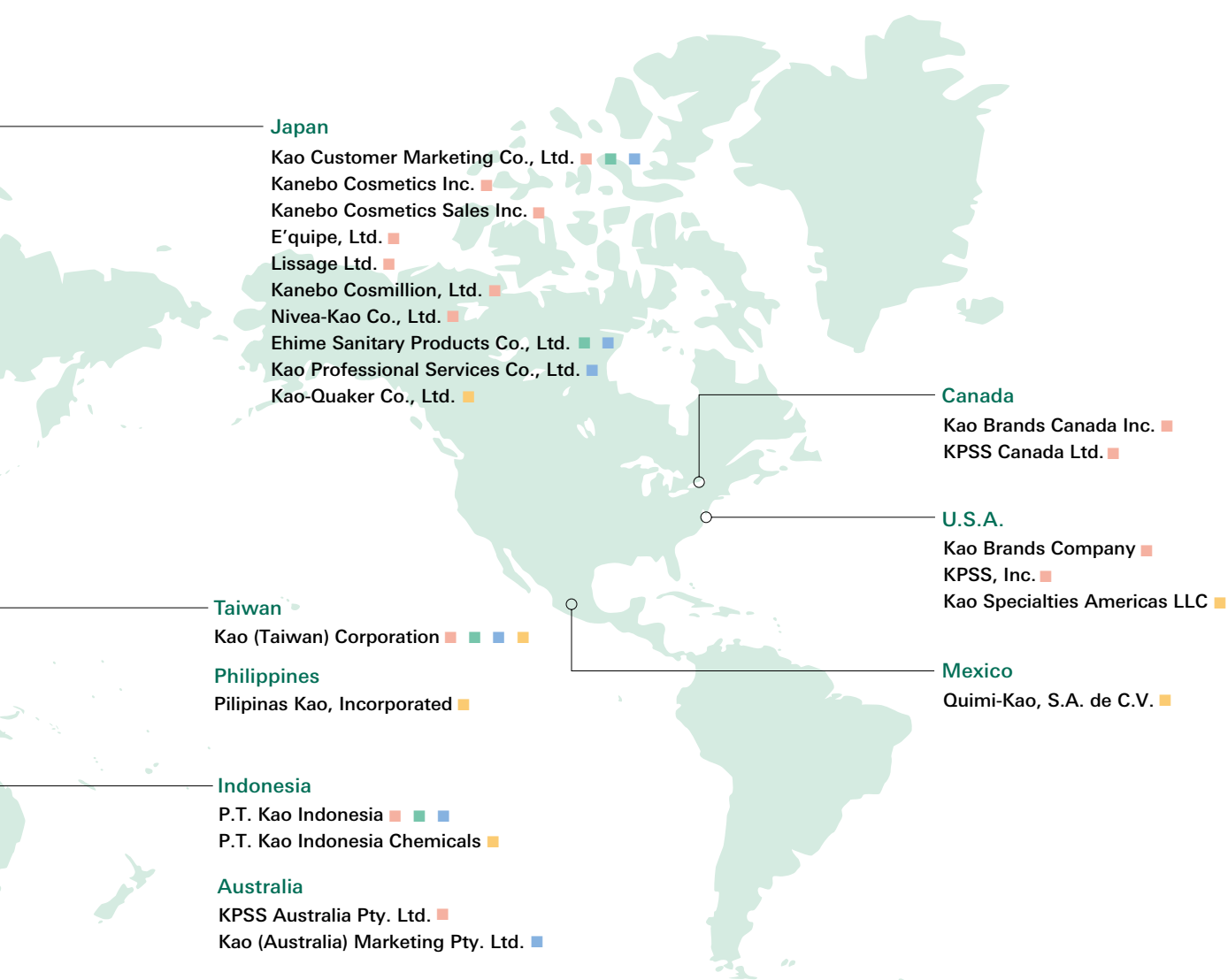
In the Fabric and Home Care Business, in order to support clean and comfortable living, Kao delivers a variety of products that pursue quality, function and convenience in the fields of fabric care, such as laundry detergents and fabric softeners, and home care such as dishwashing detergents and household cleaners.

Human Health Care Business

In the Human Health Care Business, Kao provides products that help make people's lives more comfortable and healthier. Such products include sanitary products developed by Kao's unique technologies, functional health food products that propose new values, bath additives, and oral care products including toothpaste.

Chemical Business

Through its Chemical Business, Kao globally delivers a diverse range of chemical products that meet needs in a wide range of industries. Such products include fat and oil products made from natural oils and fats, surfactants, toners and toner binders, and fragrances.





Enriching lives, in harmony with nature.

Kao Corporation

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