

A photograph of three young children playing on a light-colored wooden deck. The child on the left is a young girl with dark skin and curly hair, wearing a white patterned dress, sitting and looking towards the camera. The child in the center is a baby with dark hair, wearing a white and brown striped shirt, crawling and smiling broadly. The child on the right is a baby with light skin and short hair, wearing a white long-sleeved shirt, crawling and looking towards the camera. The background is a lush green grassy hill under a clear blue sky.

Kao Sustainability Report 2012

Enriching lives,
in harmony with nature.

Kao

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Editorial Policy

Editorial policy

This website introduces various activities for pursuing *Yoki-Monozukuri* such as universal designs that meet diverse consumer needs, product quality management, and initiatives concerning the environment throughout the product lifecycle. We also present information concerning various initiatives to our stakeholders, including Kao's consumers and customers, employees, local communities, suppliers, shareholders, and investors. Please note that this fiscal year's Sustainability Report is only available on our website.

Kao has also prepared the "Kao Sustainability Booklet 2012—Through *Yoki-Monozukuri*," detailing our key activities in an easy-to-understand and compact manner for our diverse range of stakeholders.

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.

Organizations covered

List of Kao Group companies

<http://www.kao.com/group/en/group/gateway.html>

Period covered

Performance data pertains to fiscal 2011 (from April 1, 2011 to March 31, 2012). Data on occupational safety and health, as well as on overseas Kao Group companies, covers the calendar year 2011 (from January 1 to December 31, 2011). Some fiscal 2012 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.

Issuing period

Previous report issued in July 2011

Next report scheduled for issue in April 2013

Guidelines referenced

- GRI 2006 Sustainability Reporting Guidelines
- Environmental Reporting Guidelines (2007) and Environmental Accounting Guidelines (2005) by the Ministry of the Environment of Japan
- Environmental Accounting Guidelines for Chemical Companies (November 2003) by the Japan Chemical Industry Association
- ISO 26000 (guidance on social responsibility)

Top Message

Top Message



Global perspective on *Yoki-Monozukuri* in times of change

A handwritten signature in black ink that reads "Michitaka Sawada".

Michitaka Sawada

Representative Director

President and CEO

Kao Corporation

Kao's *Yoki-Monozukuri* and society

Since its founding, Kao has implemented the development and manufacture of products based on the Consumer Driven principle, working to contribute to the satisfaction and enrichment of the lives of people. Contributing to society through our core business is of paramount importance; in fact, it is *Yoki-Monozukuri* itself, the very foundation of our business activities.

My objective is to rediscover this principle that has guided our company since its inception by practicing *Yoki-Monozukuri* from a global perspective and adapting it to this time of socio-economic change. Through our broad-based lifestyle research, we strive to develop products that not only meet consumer needs, but that also promote transformation to new lifestyles, supporting social sustainability and providing answers to social problems.

We will continue to respond to the expectations of our stakeholders through close communication. We continue to contribute to activities that support local communities, culture and the arts, as well as protect the environment. We are also dedicated to providing continued support on the long road toward reconstruction after the Great East Japan Earthquake.

Finding global solutions to social issues

The Kao Group is uniquely positioned to contribute to solutions to key social issues such as pressures on the environment, an aging society and health concerns.

Kao has been promoting "ecological management," positioning the environment at the core of management, since the June 2009 announcement of the Kao Environmental Statement. The Eco-Technology Research Center (ETRC) was established at the Wakayama Complex in 2011 and also houses the Eco-Lab Museum, a facility open to the public. The museum aims to familiarize individuals with Kao's latest environmental technology while proposing practical ideas for an environmentally friendly lifestyle. In addition to developing environmentally friendly products, Kao also actively pursues a range of awareness-raising activities through

facilities like the Eco-Lab Museum, in-store collaboration and educational support programs.

In response to an aging society, we will continue to leverage our advanced technology to offer products encouraging a healthy and active life for seniors, regardless of age. These will focus not only on functionality and tangible effects, but also on ease of use for older consumers facing a variety of challenges. Developing products with this objective in mind can also lead to products that are easy for everyone to use. This Universal Design perspective is also a natural result of our focus on a Consumer Driven principle and is something I strongly believe should always be considered as a basis of product development, resulting in even more user-friendly products coming to market.

One example from the health domain is a healthy lifestyle campaign linking Kao functional beverages to a campaign to encourage “walking at every opportunity.” As adapting and improving daily habits is an important part of creating a healthy lifestyle, the Kao Group is working to promote new solutions triggering such change.

While we are already encountering these issues in Japan and other developed countries, concerns like this are expected to grow throughout Asia and the world in the near future. Kao concentrates on global expansion of the technology and expertise gained in Japan to secure increasingly comfortable lives for people worldwide. We are nearing completion of a global harmonization management system, developed over several years, to enhance global business management and maximize the use of Kao technology, speedily responding to local needs with high-value products rooted in robust technology.

Fostering a diverse work force to lead innovation

It is individual employees who provide the backbone of Kao Group business activities. Our employees are our greatest asset, and we must continue to foster and develop these resources to ensure further innovation within *Yoki-Monozukuri*. Global business growth depends on our ability to understand local consumer needs in various countries and regions. Kao's strength as a Group depends on our individual members bringing diverse values, genders and nationalities to an open and inclusive work environment. We are fostering individual development in workplaces across the globe and striving to offer creative environments for a diverse employee base.

The driving force of “Continuous Innovation” is the spirit of all employees to take on challenges, without fear of failure. It is my aim to foster that spirit through reinforcement of internal and external communications.

Developing a company trusted by society at large

The Kao Group conducts fair business activities according to the principles and standards shared across global society. In 2005, we announced support for the UN Global Compact, which establishes 10 principles governing four areas: human rights, labor, the environment and anti-corruption. We are also currently conducting a review of our business activities based on ISO26000, the comprehensive guidance for social responsibility issued in November 2010.

In order to build international relationships of trust as a corporation, the Kao Group will continue to fulfill its responsibilities as a corporate citizen in accordance with the rules of the international community, as well as working toward the realization of a sustainable society through our unique approach to *Yoki-Monozukuri*.

Response to the Great East Japan Earthquake

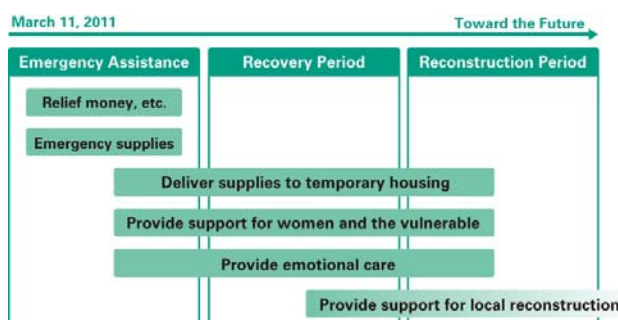
Kao provides support to help survivors find emotional stability.

Policies/goals

Review of past actions and future support

When the Great East Japan Earthquake hit last year, Kao saw its primary task, as a manufacturer of daily necessities, to be recovery and normalization of business operations. We also provided emergency aid such as relief money and emergency supplies to the disaster-stricken areas, and initiated volunteer activities of employees. In the recovery period since then, Kao, as a manufacturer of daily necessities, has continued our efforts, delivering daily necessities,

offering disaster victims emotional support, and focusing particularly on helping women, who tend to be more vulnerable in such situations. During the reconstruction period ahead, we will implement long-term initiatives, including support to industrial recovery, job creation and local reconstruction. In addition, Kao introduced special volunteer leave, enabling employees to engage in various volunteer activities. Reconstruction of the disaster stricken areas will require a long time. The Kao Group continues to pool its strengths, assisting victims to take charge of their lives once again.



Relief money: approx. 130 million yen

Supply donations: equivalent to over 520 million yen

Kao Group in Japan

Delivering Daily Necessity Sets

Since late June 2011, Kao has delivered Kao Daily Necessity Sets, filled with laundry detergent, fabric softener etc. to some 50,500 households occupying temporary housing. This support activity sought to help those moving from shelters into temporary housing with a few necessities. We received heartfelt thanks from many individuals as, at the time, there were few shops near the housing areas. Later, as the residents faced their first post-quake chill, we provided 75,000 households with Kao Winter Daily Necessity Sets, filled with bath additives and other items to make life a bit more pleasant.



Delivering Daily Necessity Sets

Kao Group in Japan

Employee volunteer activities

Total number of employees who conducted volunteer activities after the Great East Japan Earthquake was about 390. A total of 44 employees participated in volunteer programs in afflicted areas organized by the Nippon Keidanren (Japan Business Federation) or the Global Compact Japan Network, while others were involved in preparing Daily Necessity Sets to be distributed to temporary housing residents and Uru-uru Packs, as well as other efforts.



Employee volunteers removing debris from disaster affected areas

Kao Group in Japan

Emotional support for women and the vulnerable

•Support for women

Kao endeavors to bring a smile to women suffering from post-disaster stress and people with disabilities. We supported activities run by the Japan Association for Refugees (authorized NPO), providing items to be included in daily necessity kits particularly for women living in the evacuation centers. Some 5,800 sets were delivered to female evacuees. Kanebo Cosmetics, a Kao Group company, participated in beauty consultations for women living in temporary housing in Yamada Town, Iwate Prefecture, as part of the psychosocial support by Care International Japan.



Special hand care: hand cream and paraffin packs

•Emotional care for children

Kao participated in the School Smiles Support Project in an effort to support education in the affected areas. Responding to requests from schools in the stricken region indicating they would like to hold a sports day festival, as the children had been truly looking forward to it, we were able to provide both monetary and volunteer support in collaboration with other companies, setting up an outdoor venue as well as providing funds needed to hold the event. We continue to support ARTS for HOPE, a program that strives to provide care through artistic expression for children who suffer emotionally as a result of the earthquake.



Children enjoying art

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•Close to the Heart Cultural Project 24

The Kao Community Museum Program supports civic activities linked to museums. In 2011, we made a few program modifications, yielding our Close to the Heart Cultural Project 24, extending aid to 24 organizations uplifting disaster survivors through the arts. This project facilitates events communicating the disaster survival experiences, art workshops, music concerts, picture-story shows, a traveling planetarium, puppet shows and the like.



Powerful performance by Yamakiya Taiko members

Kao Group in Japan

Supporting social entrepreneurs

Kao, in our efforts to forge a better society for future generations, supports young social entrepreneurs resolving social issues through a business approach. Committed to long-term Great East Japan Earthquake reconstruction, we participated in a novel platform established by an NPO called ETIC. (Entrepreneurial Training for Innovative Communities). This platform provides mid- to long-term support for younger leaders engaged in reconstruction, matching corporate resources to local disaster area needs.



Young social entrepreneurs discussing reconstruction support

Kao Group in Japan

Smile Tohoku Project

As an official sponsor, Kao donates a portion of product sales to the Smile Tohoku Project, promoted by three Tohoku newspapers—the *Iwate Nippo*, the *Kahoku Shimpō* and the *Fukushima Minpo*. This movement started in June 2011 in Fukushima and quickly grew into a three-prefecture effort, spreading to Iwate and Miyagi. The objective is returning smiles to the faces of people throughout the disaster-affected area by hosting events for sowing seeds, nurturing flowering plants and creating flower artwork. Kao hopes to see even more flowers and happy faces blossom across Tohoku, encouraging employees to participate in seed-planting and other volunteer activities.



Kao volunteers at a seed-planting event

Stakeholders' Dialogue



Dialogue Overview

■ Date: May 29, 2012 (at Kao Corporation Headquarters)

■ Theme: Universal Designs for the Future

■ Participants:

Prominent specialists

Manabu Akaike, President, Universal Design Intelligence, Inc.

Makoto Teranaka, Visiting Professor, Faculty of Contemporary Law, Tokyo Keizai University

Kao members

Hiroshi Kanda, Representative Director, Senior Managing Executive Officer

Minako Shimada, Corporate Associate Officer, Vice President, Sustainability Department

Masaki Tosaka, Vice President, Active Senior Business, Japan

Hidesato Kizaki, Senior Creative Director (Product Design), Packaging Design Division

Yusuke Kikuchi, Kao Creative House Corporation

Purpose of Dialogue

Minako Shimada, Corporate Associate Officer, Vice President, Sustainability Department

In addition to the fulfillment of basic CSR, Kao continues to contribute to the sustainability of society with solutions to social issues through our business activities, at the same time enhancing our business itself. As a manufacturer of daily necessities, we prioritize creation of universal design products considering ease-of-use for everyone as well as environmental protection.

Kao's universal design efforts began some 20 years ago, when a consumer remarked, "since the shampoo and rinse containers are similar, I confuse them." Visually impaired persons joined us in the development of a solution—the notches you now find on the side of the shampoo container.



Development of easy-to-use products benefits not only the Japanese market, but people everywhere as countries across the globe cope with rapidly aging societies.

In this stakeholders' dialogue, I hope to discuss new perspectives we can integrate into conventional universal design concepts, and examine how we can and should implement the promotion of human rights in Kao business activities, as it is a core issue of ISO 26000, the guidelines of Social Responsibility.

Kao's Universal Design

Kao's concept of universal design

Masaki Tosaka, Vice President, Active Senior Business, Japan

Two years ago, Kao established a project to study the ideal concept and principles for universal design. We defined universal design as delivering a comfortable lifestyle to the customers through *Yoki-Monozukuri*. The three principles underpinning universal design are "User-friendly products," the foundation of the universal design concept itself, "Creating joy through products," creating products that bring joy to people in their daily lives, and "Social inclusion," adding value to the relations between people and products, people and people, and people and society.

Project members visited many homes to gain a deeper appreciation of various lifestyles. We learned that the key is overall lifestyle diversity including social environment, culture, habit, or values, rather than aspects such as age, gender, nationality, or disability. The idea of "Inclusion" that accepts all people with various values is a key for creating universal designs.



Three principles

Specific efforts toward product development

Hidesato Kizaki, Senior Creative Director (Product Design), Packaging Design Division

Over the past 10 years, store shelves have become crowded with many new items and similar-looking refills, making it difficult to select the right product. To ease the situation, we created a category labeling guideline to unify wording used on products. In addition, we worked on package designs in various ways, such as donning special glasses to grasp how color-blind and vision-impaired consumers see our products. Our packagings for overseas markets also reflects research results of local customs and cultures, including labels with symbols as well as letters to communicate with consumers in low-literacy markets.

Quickle Wiper is an excellent example of universal design. Its popularity is due to the lack of strength required for use, easing cleaning for seniors and those with disabilities; as it keeps dust at bay and is noiseless, it can be used anywhere. This is just one solution provided by our universal designs striving to solve social issues, such as promoting self-sufficiency in daily lifestyles. The *Quickle Wiper* has been improved many times since its 1994 launch, including improved grip shape and materials. Even the smallest improvements toward ease-of-use are vital to Kao's universal design.



Category labeling example

Improving information flow through universal design initiatives

Yusuke Kikuchi, Kao Creative House Corporation

We have conducted activities to remove barriers to information availability for those with disabilities, such as voice information on lives and products or Braille labels. Recently, we have actively promoted closed-captioning TV commercials.

As they have yet to be integrated into broadcasting systems, we continue promoting them through test broadcasts with advertisers and broadcasting stations. Responses were encouraging, with many viewers indicating they hope we continue offering closed-captioning commercials. With the imminent aging of society, we will see more people with declining vision and hearing abilities. Kao will continue supporting the increased use of closed-captions in TV commercials, transcending industrial boundaries to persuade related governmental agencies. All existing Kao commercials can be viewed with captions via the Kao website.



View closed-captioning commercials by clicking the "cc" button under the video frame on the Kao website page.

Key Viewpoint: Manabu Akaike, President, Universal Design Intelligence, Inc.



Profile

Manabu Akaike manages a think tank for designing social systems and is involved in environment- and welfare-conscious products, facilities, and regional development based on universal and sustainable design.

Promoting "bioregionalism" and "science of millennium sustainability," he helps plan and oversee product development projects integrating industrial technology, human resources, and local materials. He also serves as a judge for the Kids Design Award, incorporating the perspective and standards of children.

Not just for the customer, but for all people

I continually encourage the transition from "customer satisfaction" to "human satisfaction" within society and business. They should provide products and services by thinking that their customers are all humans inclusively. In this respect, I praise Kao's efforts in serving a wide range of people, and I hope to see Kao's concept and guidelines applied in its product development. Universal design aiming for "easy for everyone to use" can also be said as "Designs-For-All" in the communications. I encourage Kao to implement initiatives and proactive communication, proposing new lifestyles through products, like *Quickle Wiper*, that are easy for all to use.

"Working Together" for product development—employing the abilities of those with disabilities

Until recently, barrier-free design focused how to fill in the gap between persons with and without disabilities, labeling the latter as weak. The new "inclusive design" concept promotes development of appealing products that all consumers will find easy to use; it encourages physically impaired persons to participate not only in society, but in the development of product itself, as Kao has shown with the notches on the sides of shampoo containers.

An interesting example is the “Dialogue in the Dark Towel”—an ultra soft towel developed in cooperation with visually impaired persons, because they have highly developed skin sensations and tactile perception. Market response has been phenomenal, with production unable to match demand despite the towel’s rather high price. Involving persons with disabilities in the process of recognizing value and integrating ideas into product development generates new values. I encourage Kao to adopt “working together” for product development as well.

Universal design with a sustainable perspective

I recommend Kao to establish a universal design standard including sustainability, from a global perspective and integrating stakeholders from the entire product lifecycle. For example, the local ecosystems from which Kao procures raw materials must be considered one of those stakeholders. Children also become stakeholders, as Kao manufactures and processes products around the world, local labor issues often involve working children. These are just a few examples illustrating the broad range of stakeholders present during a product’s lifecycle. Taking all these stakeholders into consideration and implementing initiatives through the entire value chain would be true universal design in a broader sense. This style of universal design merits both society and the industry, benefiting not only users, but also people throughout society on a global level.

Key Viewpoint: Makoto Teranaka, Visiting Professor, Faculty of Contemporary Law, Tokyo Keizai University



Profile

Visiting Professor in the Faculty of Contemporary Law at Tokyo Keizai University, Makoto Teranaka served as secretary-general of Amnesty International Japan, an NPO working to achieve a society that upholds the Universal Declaration of Human Rights, from 2001 to 2011. His specialties range from human rights issues to criminology and international criminal law. His publications (co-authored) include *Heiwa, jinken, NGO* (Peace, human rights, and NGOs), published by Shinhyoron, and *Kaishain no tame no CSR nyumon* (Introduction to CSR for company employees), published by Dai-ichi Hoki.

Product development from an inclusion perspective

From the standpoint of product development, the key is whether products are developed from the perspective of inclusion, considering minority group lifestyles rather than ignoring them. Instead of excluding the needs of the few, but all should be included. Product development tends to focus on appropriate target groups, while inclusion-based product development promotes integration of consumers outside the target group. Product development limited to a specific target group naturally excludes all other potential users. Such exclusion can lead to discrimination. I hope that Kao will increasingly promote such an inclusion-conscious mindset. I applaud Kao’s efforts to provide closed-captioning TV commercials and Braille labels, integrating the inclusion perspective in information access, aiding persons with disabilities as well as the older population.

Business activities with a human rights perspective

Kao conducts thorough study of consumer lifestyle diversity. In particular, Kao’s recognition of gender and

diverse cultures, family structures, and lifestyles is highly commendable. Yet in business activities, it is impossible to eliminate all facets of minority discrimination. To begin with, minorities face difficulties simply because they are excluded from the majority. There are many ways of challenging this result. Among them, the ultimate defense is human rights protection. As long as exclusion exists, minorities will be created, and human rights problems will be the natural outcome.

In the field of human rights, ISO 26000 defines stakeholders as the minority victims who are somehow imposed upon by corporate business activities. In stakeholder engagement, importance is placed on whether such stakeholders' voices reach the companies involved. Therefore, companies must uphold fundamental rules and policies with participation of the stakeholder in mind, ready to respond swiftly in the event of human rights abuses. Furthermore, globally expanding firms must have a risk response system in place for when human rights issues inevitably occur. Expanding into any new field requires establishment of procedures, allowing early recognition of human rights-related problems. They are very important activities as a base of the product development.

Communicate globally

Nowadays, most of the companies conduct their business globally, and most of the people consume globally. From here on, we need to regard all policies and rules from a global perspective. Japanese companies usually follow existing global rules and rarely take it upon themselves to create them. Creating global rules from scratch means proposing new lifestyles and communicating them to the world. I propose Kao not only to conduct product development based on universal design, but also to communicate its knowledge to the global audience.

Thank you for your valuable opinions

Hiroshi Kanda, Representative Director, Senior Managing Executive Officer

Kao's business activities, both products and services, are dependent upon the local community, from raw materials to labor. I personally think we must recognize that, in a sense, our activities put stress on society. Listening to the valuable opinions offered by our two honored guests today, I feel I have been given the chance to reconfirm many important points essential to global business.

I have been involved in various initiatives based on universal design, but Mr. Akaike's discussion of transferring objectives from "customer satisfaction" to "human satisfaction" has opened my eyes to a new aspect of our business. As a globally-expanding manufacturer of daily commodities, I once again felt the importance of Mr. Teranaka's emphasis on deepening our community ties through enhanced understanding of various areas' and minorities' cultures, while organizing our risk response.

Kao will integrate the ideas we have heard today, including universal design, broadening our vision as we strive to enrich the lives of people all over the world.

Thank you for joining us today.



Sustainability Approach

Promoting Strategic CSR and Basic CSR, based on communications with stakeholders.

Kao's overall approach

Kao's "Strategic CSR" activities are focused on contributing to the realization of a sustainable society through its core business, and Kao's "Basic CSR" activities are the base of its business operations.

Strategic CSR activities, based on social issues that are of high concern to our stakeholders and Kao's medium- to long-term strategies, will be promoted by the Kao Group as a whole, targeting the following three prioritized themes: "Global operation," "Ecology" and "Human capital development." The focus of Strategic CSR is implementing a business model that solves social issues, in other words, contributing to society through *Yoki-Monozukuri*. We strive to contribute to society as a whole by providing products of high social value-products that integrate environmental concerns as well as the conventional performance and emotional values.

At the same time, Kao's Basic CSR activities ensure that we remain dedicated to fulfilling our natural responsibilities as a corporate citizen, such as emphasizing legal compliance and human rights, as well as contributing to the local community. Global management has been instituted throughout the Group, each division taking on its own related responsibilities. Furthermore, employee behavior expected in daily business activities is stipulated in the Kao Business Conduct Guidelines, with ongoing training for all Group employees to ensure permeation of these rules. With ISO26000 issued in November 2010 as a voluntary guidance on social responsibility, we recognized the expansion of corporate social responsibilities and revised the Kao Business Conduct Guidelines and reviewed our activities accordingly.

Kao will continue to contribute to social sustainability through the promotion of Strategic and Basic CSR as we build and respond to communications with stakeholders.



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Strategic CSR activities: prioritized themes and progress



Theme 1 ■ Global operation

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

◎ Promote 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 Kao's 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)

Results of FY2011 activities are reported on the corresponding pages of this report.

		2010	2011	2012	2013	2014	2015
Global operation	Universal design	Improvement of accessibility and usability			Product development from a universal design perspective		
Ecology	Medium-term objective	Achieving a 35% reduction from 2005 (by 2020)*					
		Achieving a 30% reduction from 2005 (by 2020)*					
		Management in accordance with SAICM					
		Biodiversity-friendly material procurement					
		Provision of environmentally conscious products “eco together” activities/cooperation with the administrations, the distribution industry, and schools					
Targets are set in the Kao Environmental Statement released in 2009							
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 include only the Kao Group in Japan.

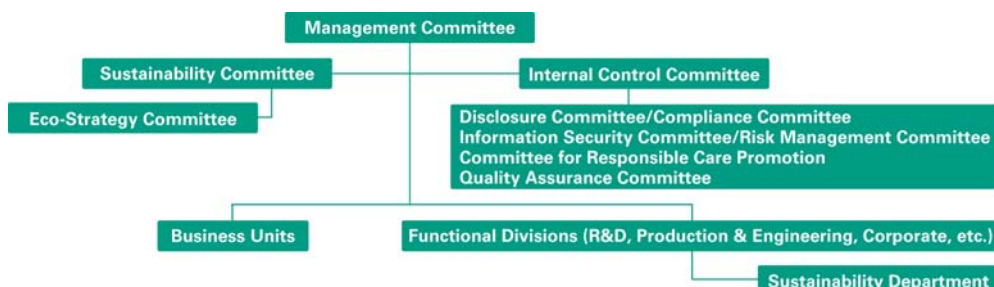
Promotion of activities for sustainability

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

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expressed in the Kao Environmental Statement 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, 2012)



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.



Management System

Corporate Governance



Kao develops and maintains a managerial framework and an internal control system with the aim of continuously increasing corporate value.

Compliance



With the aim of behaving lawfully and ethically and conducting fair and honest business activities, Kao actively promotes wide implementation and establishment of compliance on a global basis.

Risk Management



Kao continues to take appropriate measures throughout all business activities based on our Risk Management Policy.

Responsible Care Activities



Kao vigorously implements Responsible Care (RC) activities based on the chemical industry's voluntary initiative to ensure ongoing occupational safety and environmental conservation.

Corporate Governance

Kao develops and maintains a managerial framework and an internal control system with the aim of continuously increasing corporate value.

Policies/structures

Corporate governance

Kao positions corporate governance as a key management issue, and sees fundamental corporate governance as the establishment of a management system and an internal control system realizing highly effective, sound and exceedingly transparent management, as we continually strive to enhance our corporate value. Kao conducts annual reviews of these management issues and implements appropriate measures where necessary, while integrating social trends and responding to the requests of our shareholders and all other stakeholders.

Kao has introduced, within the framework of the Board of Directors, including Outside Directors, and the Board of Corporate Auditors, an Executive Officer system to separate supervision from execution. Following the June 2012 Annual General Meeting of Shareholders, the management system features more Outside Directors, fewer members of the Board of Directors and a reinforced Executive Officer system, based on our lengthy reconsideration of corporate governance. The result is a total of 10 members of the Board of Directors (including three Outside Directors), four Corporate Auditors (including two Outside Corporate Auditors), and 28 Executive Officers (including four Executive Officers with the title of Senior Managing Executive Officer or Managing Executive Officer and without concurrent positions in the Board of Directors). The governance system has been further enhanced by the appointment of the Chairman of the Board of Directors who does not concurrently serve as the Representative Director and Executive Officer, and the reduction of the term for directors from two years to one. Moreover, Kao has established the Compensation Advisory Committee and the Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President and CEO, which fulfill functions similar to the compensation committee and nominating committee of a “company with committees.” The former comprises all Representative Directors, the Chairman of the Board of Directors and all Outside Directors. The committee meets no less than once a year, during the time executive compensations are under review, allowing the Representative Directors to obtain opinions regarding the compensation system and standards regarding Board of Director and Executive Officer compensation. The results of such examination are reported at the Board of Directors’ meeting. The latter comprises all Outside Directors and all Outside Corporate Auditors. The committee examines the nominees prior to the appointment or reappointment of the Chairman of the Board of Directors and/or the President and CEO, and submits its evaluation of the nominees’ qualifications to the Board of Directors.

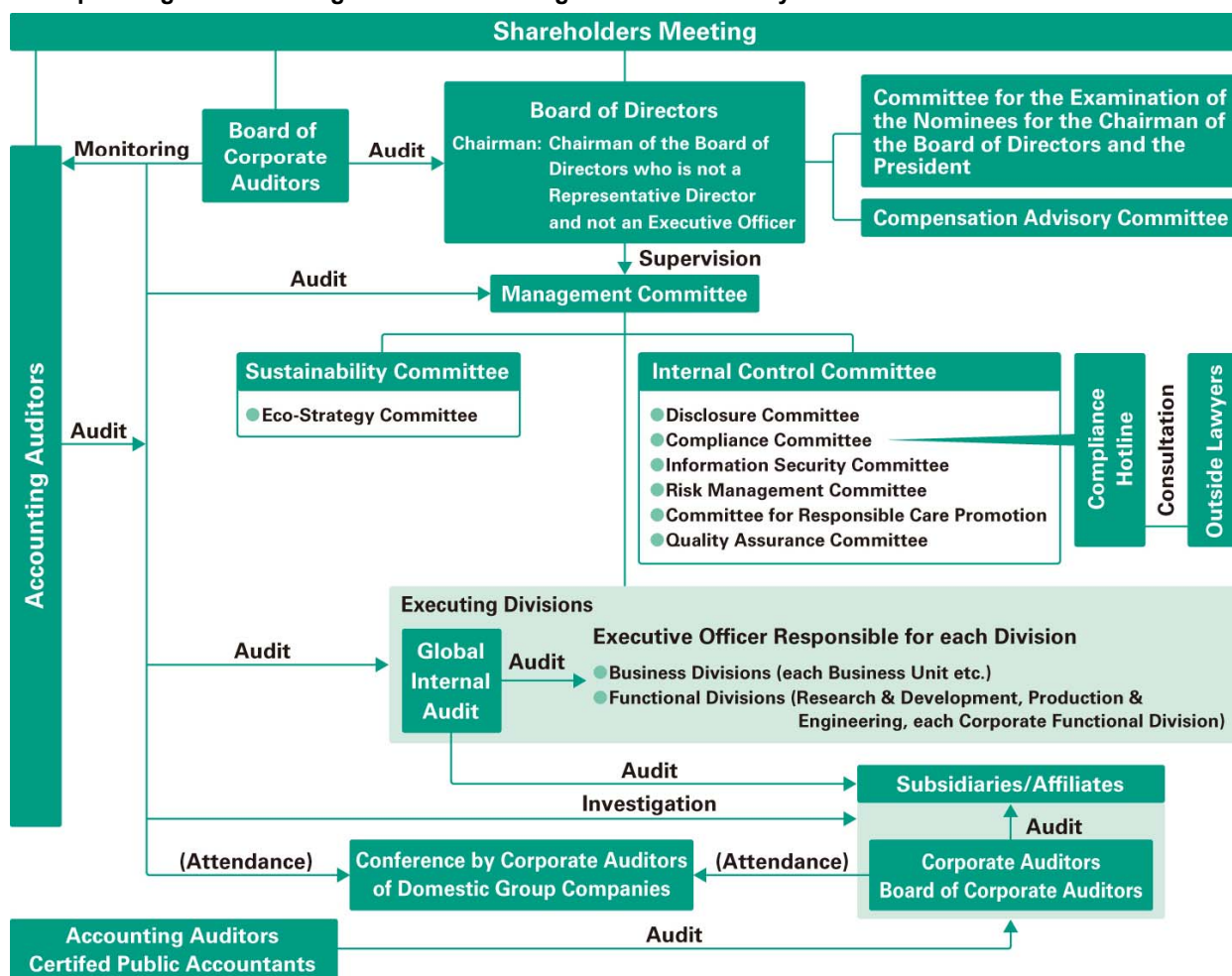
Auditors, including two Outside Corporate Auditors exchange opinions on regularly scheduled occasions with Representative Directors, attend meetings of the Board of Directors, meetings of the Management Committee and other important meetings, participate in regular conferences for corporate auditors of domestic Kao Group companies, and share auditing information with the internal auditing division and the company’s Accounting Auditor. Corporate Auditors also conduct hearings with internal divisions and subsidiaries regularly or as necessary.

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For details, refer to the “Report Concerning Corporate Governance”

http://www.kao.com/jp/en/corp_imgs/corp_info/governance_001.pdf

■ Corporate governance organization including internal control system



(Report Concerning Corporate Governance)

Kao Group in Japan

Ensuring the independence of Outside Directors/Corporate Auditors

In February 2010, Kao established and announced the Standards for Independence of Outside Directors/Corporate Auditors of Kao Corporation. All of Kao's incumbent Outside Directors and Outside Corporate Auditors satisfy the standards and are registered with the Tokyo Stock Exchange as independent directors/corporate auditors. In addition, Kao believes robust discussion at meetings of the Board of Directors is important for corporate governance; the secretariat provides sufficient explanations on the background, objective, content, etc., of items on the agenda to Outside Directors prior to every meeting.

Average attendance rate of Outside Directors/Corporate Auditors at the Board of Directors meetings in fiscal 2010 (April 1, 2010–March 31, 2011)

Outside Directors	92.8%
Outside Corporate Auditors	92.8%

For details, refer to the “Standards for Independence of Outside Directors/Corporate Auditors of Kao Corporation.”

http://www.kao.com/jp/en/corp_imgs/corp_info/governance_002.pdf

Policies/structures

Internal control

Kao formulated its Policies Regarding the Development of the Internal Control System in May 2006 and reviews them every year and revises them as needed after confirming the level of compliance. In fiscal 2011, we agreed to include the “Reinforcement Measures to Eliminate Antisocial Forces” in these Policies and promote various activities, such as concluding memorandums with Kao Group partners concerning antisocial forces.

In addition, in accordance with our Policies, the Internal Control Committee (chaired by the Representative Director, President & CEO) reviews and approves system maintenance and operational planning, periodically evaluating, and revising as necessary.

In addition, six committees (see the column on the right) have been placed under the Internal Control Committee to analyze and comprehend the situation surrounding internal control and make necessary improvements by employing the PDCA (Plan, Do, Check and Act) cycle. The members of the Board of Directors and Executive Officers who sit on these six subcommittees as key members also serve on the Secretariat of the Internal Control Committee to confirm the status of maintenance and promotion of the internal control system, including the status of individual subcommittees' activities.

In response to the Internal Control Report System under the so-called J-SOX legislation, Kao has established the J-SOX Secretariat and works to promote the development, operation and efficient evaluation of its internal control system and enhance the reliability of financial statements.

Kao will continue to improve its internal control system.

Six Committees under the Internal Control Committee

- Disclosure Committee
- Compliance Committee
- Information Security Committee
- Risk Management Committee
- Committee for Responsible Care Promotion
- Quality Assurance Committee

Global

Global harmonization of internal control

In accordance with the Global Business Harmonization of the Beauty Care Business in the Americas and Europe, Middle East, and Africa (EMEA), we are further enhancing the promotion of global harmonization activities in all areas covered by the six committees subordinate to the Internal Control Committee.

Compliance

With the aim of behaving lawfully and ethically and conducting fair and honest business activities, Kao actively promotes wide implementation and establishment of compliance on a global basis.

Policies/goals/structures

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

To practice "integrity" in our daily activities, we have defined three compliance priorities: (1) Establishment and revision of the Kao Business Conduct Guidelines (BCG), (2) Implementation of educational activities to promote each employee's understanding of the BCG (employees sign an acknowledgment of understanding at workshops), and (3) Establishment and operation of compliance hotlines to resolve employees' questions and give support to take responsible action in a timely and appropriate manner. We have established a firm structure to promote compliance focusing on the following three items and are conducting related activities in order to promote this structure throughout the entire Kao Group.

1. Compliance Committee

Kao has established a Compliance Committee, chaired by a Managing Executive Officer and comprised of representatives of relevant divisions and affiliates. The Compliance Committee discusses the establishment and revision of the BCG and implements activities to promote wider permeation of corporate ethics both domestically and outside of Japan, and the operation of the compliance hotlines and the review and monitoring of hotline responses. The committee reports important matters, decisions, and an activity overview, and makes proposals to the Board of Directors. There were no significant violations of any laws by any Kao Group companies in fiscal 2011.

2. Secretariat meeting of the Compliance Committee

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

3. Compliance audits and monitoring

At the Kao Group, internal audits on compliance are conducted by Kao Global Internal Audit, and the following monitoring is regularly conducted to gather employees' opinions on compliance status and take necessary measures.

Kao Sustainability Report 2012

• Self-appraisal of individual divisions

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

• Employee opinion survey “Find”

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

• Supplier satisfaction survey

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

• Self-check exercises at compliance seminars

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

Kao Business Conduct Guidelines

http://www.kao.com/jp/en/corp_info/compliance.html

Global

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. Kao remains aware of and responsive to these changes as our Compliance Committee carries out an annual review of the Kao Business Conduct Guidelines (BCG) and other compliance-related stipulations, implementing revisions when necessary.

Driven by the 2010 publication of ISO26000, the comprehensive guideline for social responsibility, and the rapid expansion of corporate social responsibilities expected throughout the international community, Kao strived to create a global standard guideline for use across all Kao Group companies; the resulting revised BCG was issued in April 2011. This BCG is available to the public in Japanese and English on the Kao website, with translations in Chinese, Thai, Indonesian, Vietnamese, German, Spanish, French, Italian and Russian distributed to Kao Group employees around the world. In addition, in June 2011, all Kao Group employees in Japan with access to a computer—11,718 employees—partook in a mandatory BCG-related exam via e-learning to enhance companywide understanding of the BCG contents.

Compliance measures were further enhanced in November 2011, with the revision of the Compliance Committee Regulations to help improve the quality of Kao Group business activities worldwide and clarify the implementation of annual reviews of BCG-related regulation.

Global

Implementing Integrity Workshop on a global basis

With the revision of the BCG in 2008, Kao transformed the compliance workshop previously conducted only in domestic Kao Group companies into the universal Integrity Workshop, which was held throughout Asia,

Kao Sustainability Report 2012

including Indonesia, Thailand, China and Vietnam. The workshop was later held in the U.S., U.K., Mexico, Spain, and other western countries. In fiscal 2011, the Integrity Workshop was extended to all Kao Group companies and, between 2008 and fiscal 2011, a total of 5,782 of the approximately 11,300 Kao employees outside Japan have participated in the Integrity Workshop.

Employees who are key persons in each overseas Kao Group company were assigned as workshop 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 from managers to non-managerial employees in a step-by-step manner so that all employees can fully understand the principle of integrity.

We also began to introduce the Integrity Workshop in Japan in fiscal 2011, further promoting global awareness throughout Kao Group companies.

■ The status of implementation of the Integrity Workshop (totals as of the end of March 2012)

Region	Number of workshops held	Number of participants
Japan	4	110
Asia/Oceania	192	4,520
Europe and the United States	62	1,262
Total	258	5,892

Global

Six years on the World's Most Ethical Companies list

In March 2012, Kao was named as one of the World's Most Ethical Companies 2012 by the U.S. think tank, Ethisphere Institute. We have been on the list for the past six years, since the award's inception in 2007. Kao is the only Japanese company, and the only manufacturer of fast-moving consumer goods as well as chemicals, to be honored all six years.

Selection of companies is based on the evaluation of five factors: Ethics and Compliance Program; Reputation, Leadership and Innovation; Corporate Citizenship and Responsibility; Governance; and Culture of Ethics. Among these factors, Kao was particularly well evaluated for its activities related to the promotion of ethics and compliance as Kao systemically offers an environment in which employees can perform their duties confidently and responsibly.

This environment emerges from regular revisions of the Kao Business Conduct Guidelines (BCG), implementation of the Integrity Workshop, familiarizing Kao Group employees with regulations, and Kao Group-wide compliancy hotlines for employees to seek advice or report possible legal or ethical misconduct.

For the list announced on March 2012, a record number of companies were surveyed based on newly revised standards resulting in 145 companies across 36 types of industries being selected.

Global

Establishing and operating compliance hotlines

The domestic Kao Group companies have established both internal compliance hotlines operated by the Compliance Committee secretariat members and external hotlines operated by outside specialists, including lawyers and counselors, to provide a means for reporting compliance-related matters, including legal or ethical violations.

All of these hotlines accept reports and inquiries not only from Kao's employees in Japan, but also from related parties, including domestic business partners. During the consultation process, the identities of callers are strictly protected. In addition, proper consideration is given to ensure that callers are not disadvantaged as a result of the consultation, and when it is necessary to confirm details with a third party, the caller's approval is first sought. Moreover, people contacting the hotlines by e-mail will get a reply (receipt of report or consultancy and plan of measures) within 24 hours.

In addition to internal hotlines, all of Kao's overseas Group companies have external hotlines (known as "Integrity Lines") operated by an outside service provider who responds to each inquiry in the caller's own language 24 hours a day, 365 days a year. In fiscal 2011, an average of 16 reports was received per month (including at overseas Kao Group companies), however, none of them presented serious risks to Kao Group companies.

Kao Group in Japan

Measures ensuring full compliance in daily activities

Kao assigns employees trained as "legal experts" to monitor trends in enforcement and amendments to laws and regulations related to its business, and to distribute information and educate as needed through various means, such as in-house workshops.

In addition, various internal rules that are useful in putting Kao Business Conduct Guidelines (BCG) into practice are available on the intranet at Kao Group companies in Japan.

Laws and regulations revised in fiscal 2011 for which legal experts conducted relevant activities:

- Waste Management and Public Cleaning Act
- Water Pollution Control Act
- Water Pollution Control Act (cabinet order)
- Tokyo Metropolitan Ordinance for Eliminating the Organized Crime Groups
- RoHS Directive
- Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc.

Number of laws for which legal experts have been appointed and the number of internal regulations registered as of the end of March 2012

Number of laws for which legal experts have been appointed:
340 laws in total
Number of internal regulations registered:
531 regulations

Global

Safeguarding intellectual property

Kao conducts its business activities while protecting its industrial property rights, such as patent, design, and trademark rights for intellectual property including new technology and product concepts, package designs, and trademarks.

Intellectual Property Center focuses on patent rights, which indicate key company values such as capacity for technological development, as they promote strategic applications in a broad range of fields. Brand Legal Management collaborates closely with the business divisions while submitting and managing applications for design and trademark rights (some design rights are handled by Intellectual Property Center). Kao also actively pursues the acquisitions of the rights outside of Japan, while vigorously protecting the company against any infringements of its legal rights, both in Japan and overseas. Most recently, Kao has been pursuing measures against counterfeit products in the Asia and other regions.

At the same time, we strive in its established system to respect others' rights in Japan and overseas, to avoid infringement upon them from the initial stages of our R&D activities, re-confirming existing patents before new product launches and taking action as necessary, and examining product packages in advance to avoid any rights-related issues.

Information Security and Protection of Personal Information

Information Security and Protection of Personal Information

Policies/goals/structures

Kao has established Guidelines on Handling Trade Secrets, Kao Guidelines for Handling Personal Information, and IT Security Guidelines, based on its Information Security Policy to ensure business activities are carried out in accordance with the relevant laws. The Information Security Committee, divisional members for protection of trade secrets (TS), and supervisors who handle personal information are required to ensure comprehensive information security management when performing their respective roles. Kao provides these personnel with necessary training and education on an ongoing basis. In response to global sharing of information, Kao endeavors to improve the Kao Group's level of TS and personal information management.

Kao strictly protects personal information in accordance with the guidelines produced by the Japanese Ministry of Economy, Trade and Industry. When transactions involve outsourcing of operations, including handling of personal information, to other companies, Kao exercises thorough oversight of such companies by means of detailed execution of contracts and auditing procedures. Pursuant to the Japanese Ministry of Health, Labour and Welfare's guidelines, the personal information of Kao employees in Japan is also managed properly.

Kao Group in Japan

Implementing divisional self-patrols

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

Kao Group in Japan

The 18th TS & Personal Information Protection Promotion Meeting

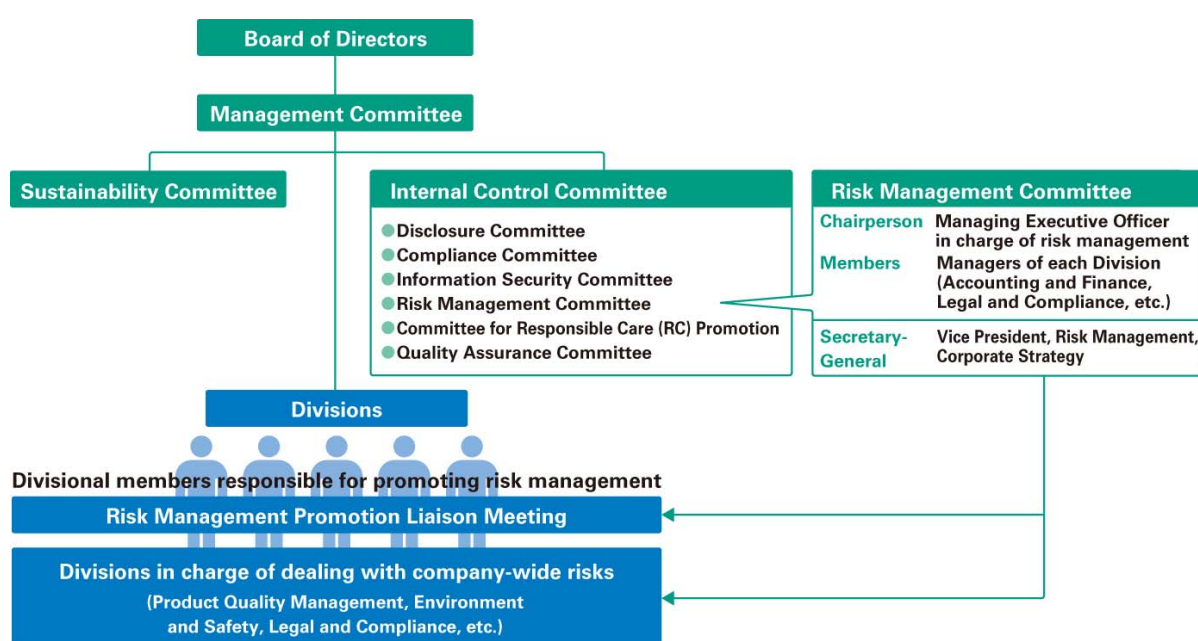
In 2011, Kao held the 18th TS & Personal Information Protection Promotion Meeting. During such meeting, the newly issued Social Media Guidelines were explained and guest speakers gave presentations in order to educate employees on avoiding problems while taking a proactive approach to social media.

Risk Management

Kao continues to take appropriate measures throughout all business activities based on our Risk Management Policy.

Policies/structures

■ Risk management system



In order to practice Kao's corporate philosophy of *Yoki-monozukuri*, we should manage risk appropriately by visualizing risks attending ongoing business and implementing measures to minimize their frequency and influence. Meanwhile, we must remain prepared during normal conditions to minimize emerging damage and loss if such risk occurs. Kao conducts risk management activities by prioritizing risk management and measures based on the order of priority specified in the Kao Risk Management Policy (1. Protection of human life, 2. Environmental conservation, 3. Continuation of operations, and 4. Protection of assets).

Kao's Managing Executive Officer in charge of risk management chairs the Risk Management Committee, which comprises members assigned by the chairman. The Risk Management Committee is responsible for promoting and advancing risk management activities companywide by: 1. Determining basic policies for risk management activities, 2. Determining infrastructure and operating plans for risk management activities, 3. Supporting expansion of the risk management mindset and activities throughout Kao and its subsidiaries, and 4. Ensuring intra-corporate communication of each division's risk management activities.

In addition, the Board of Directors is expected to confirm and supervise the companywide risk management system and validate basic policy concerning management and responsive measures for the most serious risks.

Among the various risks related to overall business activities, risks related to management strategies that affect business opportunities are evaluated by the relevant divisions and countermeasures are developed.

When necessary, the Management Committee and Board of Directors check and oversee these countermeasures.

For the management of operational risks, each division assigns a dedicated staff member responsible for promoting risk management, clarifying, evaluating, avoiding, and minimizing risks on a regular basis.

Risk Management, Corporate Strategy promotes a risk management PDCA cycle in order to understand the risk management activity status of each division and support further improvements as well as strengthen risk management from a companywide perspective. Risk Management, Corporate Strategy also acts as the secretariat for the Risk Management Committee.

Goals

Kao defines a risk to be any event and its occurrence factors directly or indirectly obstructing ongoing business activities and the achievement of business objectives of any division. Activity targets are set to appropriately manage such risk and Risk Management, Corporate Strategy is in charge of promoting those activities.

1. Identify at the global level risks that could affect *Yoki-Monozukuri* and the continuation of operation, and strengthen countermeasures

Carry out a risk study on main divisions of domestic business as well as overseas Group companies. The events that could seriously affect *Yoki-Monozukuri* and business continuity, or the factors of such events are given the priorities for the countermeasures of the divisions responsible for the risks, to reduce the impact on business activities.

2. Strengthen the emergency response system

We continually review our emergency response system for disasters, accidents or problems caused by product quality, prioritizing respect for human life and the prevention of harm to people. Rapid changes in the business environment, including globalization, diversification of market needs, and the advancement of networks, greatly increases the scale and speed of the impact on the customer, at the occurrence of the issues such as interrupted operations in one location caused by disaster or accident, or a quality issue with a product sold worldwide. Kao strives to strengthen our response to meet the demands of such an impact.

3. Maintain and enhance the business continuity plan (BCP)*

Kao has reviewed and revised our business continuity plan based on events that could seriously impact the continuity of our business activities, such as an epidemic outbreak or operational shutdown due to a large-scale earthquake. As a result, we have identified additional issues and are strengthening our processes to ensure continued delivery of products to the customer.

* Business continuity plans (BCP)

A plan for continuing important corporate operations based on predetermined procedures to ensure selected operations and functions are maintained in selected ways, depending on the situation in the event of interruption and/or shutdown of business activities due to unexpected events

Global

Identify the risks that could affect *Yoki-Monozukuri* and the continuation of operations, and strengthen countermeasures

In fiscal 2011, we focused on the identification of the risks to global expansion in our research, production, and

sales activities. For the risks and concerns with potential to impact the entire company among the identified risks, key divisions handling risk management then developed concrete measures.

In Japan, each division presents progress updates at the Risk Management Promotion Liaison Meeting and conducts self-monitoring of their own management activities. By sharing the cases of risk occurrence within and beyond the company, participants of the meeting could increase understanding of what events or factors would affect the business and raise the awareness of operational risks.

Our objective for fiscal 2012 is to reconfirm all operations required to “ensure delivery of products to the customer,” identifying the factors and concerns impacting the continuity of those business activities, and strengthening the corresponding countermeasures.

Risk Management, Corporate Strategy will also encourage opportunities to exchange risk-related information across the Kao Group, reinforcing risk reduction activities.

Global

Strengthen emergency response system

In fiscal 2011, anticipating potential product issues accompanying the expansion of the Beauty Care Business in Europe and the Americas, Kao revised the roles and rules of conduct affecting related domestic and overseas divisions. In fiscal 2012, we are strengthening “first responses” within and beyond the company to handle potential product-related issues, enhancing information delivery and assessment outside the company as well.

Global

Maintain and enhance the business continuity plan (BCP)

In fiscal 2011, learning from responses to the Great East Japan Earthquake, we strengthened our supply chain, reevaluating priority products and procurement of raw materials, production, and logistics, to “ensure delivery of products to the customer.”

For procurement of raw materials, the Kao Group is purchasing from multiple vendors and standardizing specifications to enable flexible purchasing according to conditions.

To strengthen our manufacturing system, we have taken measures such as seismic strengthening and liquefaction countermeasures to make factories more disaster resistant. In addition, we are restructuring our manufacturing bases from a global perspective to accommodate priority products.

Another new issue we are aware of is the possibility that an earthquake with an epicenter in Tokyo or other disaster could damage the head office and interrupt its functions. Therefore, we are studying how to maintain head office functions by considering duty assignments and ways of continuing operations under emergency conditions.

In fiscal 2012, we will work to establish a stronger business continuity framework, by swiftly dealing with the issues we have been studying in order to improve the effectiveness of the BCP.

Responsible Care Activities

Kao vigorously implements Responsible Care (RC) activities based on the chemical industry's voluntary initiative to ensure ongoing occupational safety and environmental conservation.

Policies/goals

Kao carefully safeguards individuals and the environment at every step of our business, from product development to manufacturing, logistics, use, and disposal, aiming to contribute to the realization of a society with sustainable development. To achieve this objective, we have established Environment and Safety Division, formulated a policy based on the basic elements of the Responsible Care (RC) Activities* (self-monitoring efforts governing the environment, safety and health set out by the chemical industry), and are currently implementing activities based on our annual plan.

Activities include holding a meeting of the Committee for Responsible Care Promotion biannually, in December and March. This committee comprises 12 members: 10 RC Promotion Members selected from the 10 divisions and business companies promoting RC activities within Kao Japan, plus two representatives from the Environment and Safety Division and the Product Quality Management Division. The Executive Officer in charge of environment and safety management chairs the committee.

During the committee meeting in December, members plan initiatives to clarify our course of action and strengthen the management system, and deliberates the following fiscal year's objectives based on the results of the RC Office's audit conducted every November.

At the meeting in March, individual RC Promotion members report their respective division's plan for the next fiscal year, which the committee then deliberates. The RC Promotion members deliver the deliberation results to their respective divisions, relating the contents to their activity units in an effort to enhance and advance RC activities.

*Basic elements of RC activities

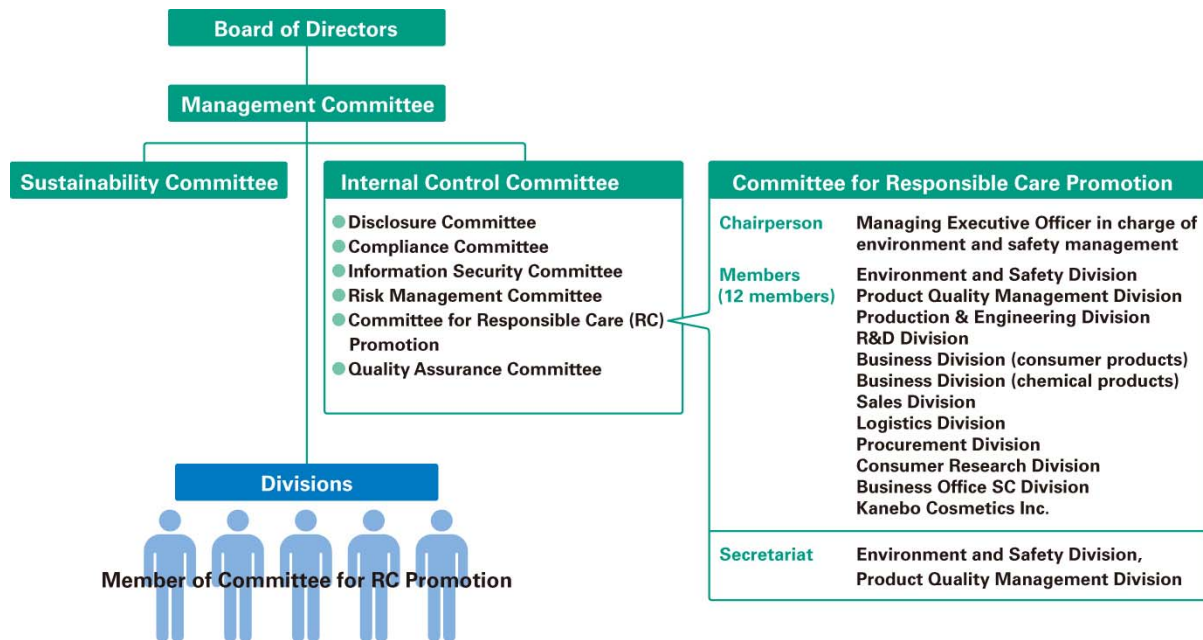
Five objectives ("Environmental conservation," "Process safety and disaster prevention," "Occupational safety and health," "Chemical and product safety," "Distribution safety") and "Communication with society"

Basic Policies for RC Activities

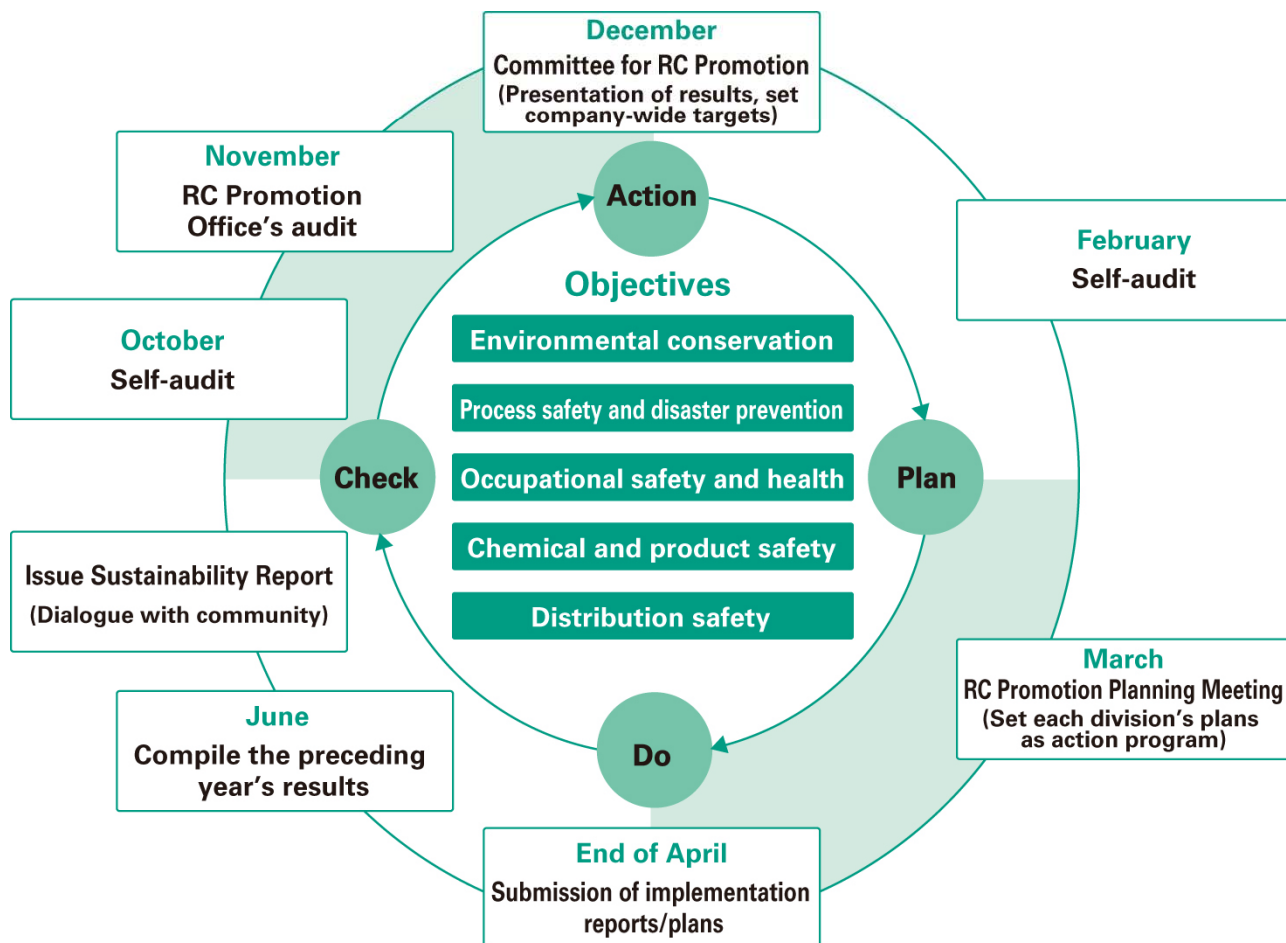
- Maintain employees' health and safety and improve operational safety
- Develop products with attention to the environment and safety
- Save resources and energy and reduce waste
- Promote human safety in the community and take a responsible approach to environmental conservation
- Comply with laws and internal controls
- Provide adequate training
- Conduct evaluations
- Disclose information and improve reliability in the community

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RC promotion system



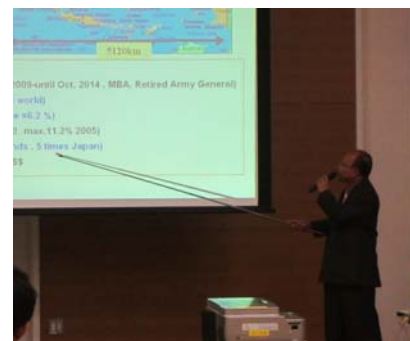
Annual schedule for RC activities



Global

Standardizing RC activities

Kao is promoting the global expansion of RC activities as part of the Kao Group corporate governance. We are working on standardizing Kao Group activities, integrating efforts implemented by Group companies in each country. Initially, the focus is on companies with manufacturing plants in Asia, promoting the establishment of RC system and activities not only in the plants, but throughout each company as well. Kao (Taiwan) Corporation reported such results to the Committee for RC Promotion in Japan in December 2011, as did PT. Kao Indonesia Chemicals in March 2012. Worldwide expansion should be complete by 2015.



PT. Kao Indonesia Chemicals employee presenting results at the Committee for RC Promotion meeting.

Global

Utilization of environmental safety database

Kao is developing an overseas version of the Environmental & Safety Data Management System (KANCHAN System),* making it accessible by all Group companies, in a further effort to reduce both environmental impact and occupational accidents. Currently, data can only be entered by manufacturing plants; the system will be expanded to allow input from offices and research labs as well.

The KANCHAN System automatically calculates Kao's total Greenhouse gas emissions, annual frequency and severity rate of occupational accidents, along with other data—practical information for use in reducing our environmental impact and eliminating occupational accidents.

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

Data shared among the Kao Group under this system includes those related to energy consumption, greenhouse gas emissions, soot and dust emissions, wastewater amounts, wastewater concentration measurements, soil and groundwater measurements, PRTR material amounts and emissions, waste materials generated, discharged, and finally disposed of to landfill, occupational accident statistics, traffic accident statistics and more.

Kao Group in Japan

Conducting Responsible Care Promotion Office's audits

The Responsible Care Promotion Office implements audits of RC activities annually (November), conducted by the individual divisions in charge of RC promotion to determine their progress and challenges to be addressed. In addition, the individual divisions conduct self-audit of their activity units. These results are reported to management at the Committee for Responsible Care Promotion meeting held in December each year and utilized in the formulation of the next fiscal year's policies and targets. In fiscal 2011, the individual divisions in charge of RC promotion conducted self-inspection in October, and the Responsible Care Promotion Office conducted audits in November. These audits identified no significant problems.

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■ Results of audits by Responsible Care Promotion Office conducted in fiscal 2011

	Production & Engineering	R&D	Business Units	Corporate	Affiliates*
No. of questions	45	35	76	65	135
No. of items requiring continued observation	6	1	8	15	17
Average evaluation score (5-point scale)	4.93	4.94	4.92	4.78	4.78

*Affiliates: Kanebo Cosmetics Inc., Kao Customer Marketing Co., Ltd. (CMK), Kao Logistics Co., Ltd.

Kao Group in Japan

Implementing continuous RC education

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

In fiscal 2011, the Responsible Care Promotion Office held 31 RC training sessions for employees, with the participation of a total of 476 people.

■ Results of RC education conducted in fiscal 2011*

	Production & Engineering	R&D	Business Units	Corporate	Affiliates	Total
No. of training sessions	16	1	4	7	3	31
No. of participants	216	10	154	72	24	476

*For the domestic Kao Group

For details, refer to Kao's List of ISO Certifications:

http://www.kao.com/jp/en/corp_csr/eco_activities_02_11.html

Topics: Kao receives Fifth Annual Responsible Care Award

Kao received the Fifth Annual Responsible Care Award (RC Award) presented by the Japan Chemical Industry Association for its reductions in chemical substance discharge. The RC Award is presented to individuals or organizations contributing to the promotion and enhancement of Responsible Care activities. Kao was recognized for substantial reductions in atmospheric emissions from substances subjected to the PRTR* Act and volatile organic compounds (VOC).



Kao members awarded at the Member Reception

*PRTR: Pollutant Release and Transfer Register. The PRTR Act promotes the improvement of self-management by businesses manufacturing or handling chemical substances in order to preempt obstacles to environmental protection.

Topics: PT. Kao Indonesia Chemicals receives Responsible Care Award

PT. Kao Indonesia Chemicals (KIC) received the Gold Award for Responsible Care from Komite Nasional Responsible Care Indonesia (KN-RCI). Since 2009, KN-RCI has been honoring member companies with three levels of awards—Silver, Gold, and Platinum—in recognition of their Responsible Care activities in Indonesia.

Two years ago, KIC received the Silver Award as well. This award reflects KIC's efforts to ensure safety and a high quality of life. KIC has continually promoted activities in workplace safety, obtaining ISO 9001 (Quality Control Management System), ISO 14001 (Environmental Management System) and OHSAS 18001 (Occupational Health and Safety Management System) over the years, while implementing various quality control and environmental protection initiatives related to chemical products. KIC social contributions include onsite blood-drives, encouraging members to donate blood, and philanthropic activities benefiting orphanages.



With representatives of KN-RCI

To Be Closest to Consumers and Customers

To Be Closest to Consumers and Customers

Universal Design



With a diverse range of consumers in mind, we develop user-friendly products—making products easy for everyone to use—while we focus on the relationships between individuals, and between individuals and society, working to promote social inclusion. Kao also aims for barrier-free access to information.

Communication with Consumers



We continue to strive for the enrichment of the lives of people and a sustainable society through the improvement of products and services, providing essential lifestyle information by telephone, e-mail, and interpersonal interactions.

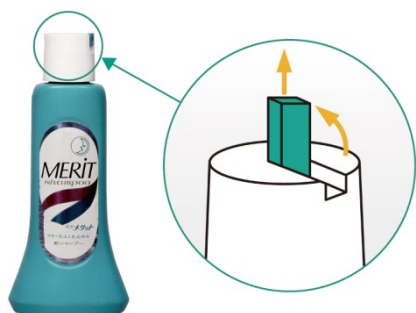
Universal Design

Universal Design

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Policies/goals/structures

With “Consumer Driven” the foundation of our *Yoki-Monozukuri*, Kao has consistently expanded business based on products that are “easy for everyone to use.” Recently, changes in demographic composition and lifestyles, such as an aging population and more men participating in housework and childrearing, are creating a more diversified consumer group using Kao’s daily necessities and consumer goods. Providing easily-usable products is increasingly important as Kao expands to the global market, meeting the needs of people all over the world with diverse values and cultures.



Merit adopts a push-button cap that can be opened with one hand (1970)



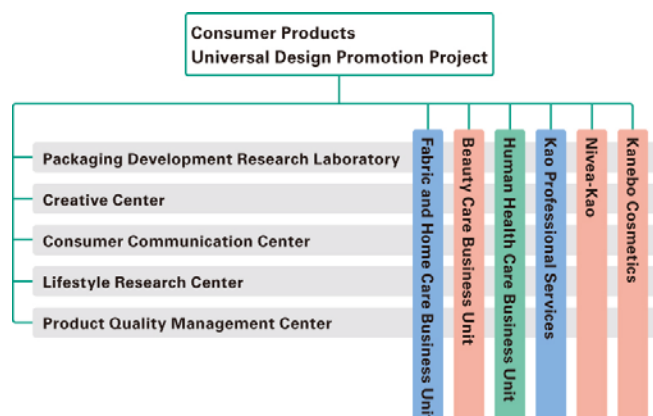
New markings allow easy recognition of shampoo and conditioner containers (1991)



Launched *Quickle Wiper*—lightweight tool for easy floor cleaning without a vacuum (1994)

To see a fuller sharing and permeation of this concept throughout the company, Kao launched the Consumer Products Universal Design Promotion Project in December 2010, with participants from related divisions across the company. The project encourages each division to share universal design issues concerning Kao products and updates on efforts to resolve these issues. We also visited the houses of the users where we could communicate directly with customers to understand their feelings and concerns toward certain products. The results helped us immensely in formulating Kao’s Guidelines of Universal Design.

■ Universal Design Promotion Project organization



■ Kao's Guidelines of Universal Design



Kao's Guidelines of Universal Design states that Kao strives to develop "user-friendly products" by focusing on "accessibility," "safety" and "usability," and also to create the products that bring joy to people in their daily lives. By giving due consideration to diversity and diverse relationships, Kao aims to contribute to the promotion of social inclusion.

Kao will strive to facilitate permeation of this concept throughout the company while using it as a guide to improve products and information availability. As part of this effort, we established Active Senior Business Center on March 1, 2012, to promote business and product development across all business units, dedicated to serving the needs of older consumers.

Kao Group in Japan

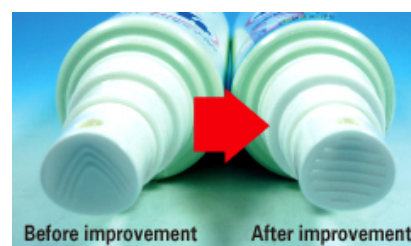
Examples of product improvement based on Voice-of-the-Consumer advice

Example 1. *Sanina Spray* (sanitization spray for anal area) container modifications

Since its launch in 1985, *Sanina Spray* has enjoyed significant consumer loyalty for many years. At the same time, "the spray button is hard and the liquid does not come out easily" was a common complaint among elderly and female consumers. In April 2010, improvements to the container reduced the amount of strength need to push the button by approximately 30%. In January 2012, further improvements decreased the required pushing strength by another 30%, while the trench shape of the button was enhanced to prevent finger slippage. We supplied the newly enhanced product to customers who kindly provided us with feedback in the past, and received favorable comments indicating the button was much lighter and easier to push (The improved version is now available at stores).

The cap size has also been reduced, decreasing the amount of resin required from 8.8 to 2.2 grams, in consideration of environmental conservation.

Modification to trench-shaped spray button



Button trench was slightly flattened and elongated to improve touch

Example 2. Unified labeling categories with guidelines for easier identification

With the myriad product types crowding store shelves these days, consumers have commented on the difficulty in distinguishing the intended purpose of each product. This holds true not only in stores, but also at home.

In October 2010, Kao issued a category labeling guideline, specifying product category labeling to be displayed on the front of product containers, clearly indicating usage. Application of the guideline on nearly all consumer products was completed in fiscal 2011. Refill bags are clearly labeled in multiple places to prevent erroneous purchases. Products that may cause confusion due to similar-colored packaging now boast enhanced distinguishability through the use of both words and icons on the package.



Kao Group in Japan

Barrier-free access to information

In addition to usability, Kao places importance on the clear conveyance of product information, such as directions for use and ingredients.

• Braille stickers

We provide Braille stickers for containers upon request to help visually impaired consumers distinguish between similarly shaped product containers. For household products, we have stickers indicating everything from “BODY SOAP” to “SHAMPOO,” “RINSE,” “FACIAL CLEANSER,” “MAKEUP REMOVER,” “TOOTHPASTE,” “TOILET,” “BATH,” and “CHLORINE-BASED.” Braille stickers for cosmetics clarify product type, usage conditions, target problem area, color of lipstick and other makeup, and additional characteristics. In addition to the Braille dots, stickers are printed with large black lettering, making them useful for elderly consumers as well as the visually impaired.



Braille labels used on cosmetics containers



Braille labels for use on household products

• Trial broadcast of closed-captioned television commercial

Closed caption is essential for hearing-impaired viewers to be able to enjoy television programs and gain access to the information provided in commercials. Although digitalization has enabled the closed caption to a great number of programs, attempts at providing closed captions for commercials, which occupy some 20% of airtime, have only recently begun.

Kao has produced a few trial runs in an effort to expand the use of closed-captioned television commercials, broadcasting commercials during Kao-sponsored programming from August 21 to September 18, 2011, and again from January 12 to the end of April, 2012. In addition, all currently released Kao television commercials can be viewed with closed captions on the Kao CM Channel through the Kao website. Kao surveyed the hearing impaired and their families, along with related organizations, incorporating their feedback into our research, yielding new broadcasting guidelines. Kao continues proactive incorporation of closed-captioned commercials, using the best methods available to relay information in a clear format to all viewers.

Example of closed-captioned commercial



Kao Commercial Channel

<http://www.youtube.com/user/KaoJapan>

• Product catalog

Pages in the online Product Catalog site introducing details such as product components and instructions for use, offer a text-to-speech software link, enabling customers to listen to the text, supplemented by descriptions of graphs, and the like.

[For details, refer to p. 40 “To Be Closest to Consumers and Customers > Communication with Consumers”](#)

Communication with Consumers

We continue to strive for the enrichment of the lives of people and a sustainable society through the improvement of products and services, providing essential lifestyle information by telephone, e-mail, and interpersonal interactions.

Policies

Kao's Consumer Communication Center serves as its contact point with consumers, not only responding to specific comments and requests submitted by consumers in an "accurate, quick, and courteous" manner, but gaining a well-developed understanding of actual usage situations related through our customer's concerns and lifestyle habits.

Goals

Kao aims to reflect consumer opinions and inquiries obtained to improve and develop its products and improve services by listening to consumers while fine-tuning its outgoing communications.

Kao also endeavors to provide a wide range of daily life information that is useful for everyone from children of the next generation to the elderly.

Kao promotes diverse educational activities by organizing various seminars and actively participating in events organized by administrative agencies. Since fiscal 2010, Kao has been providing education support activities, including Environmental Education Program, Hand Washing Education Program and House Cleaning Education Program that are related to the curriculum at schools. Kao aims to expand such opportunities, enabling us to communicate directly with more consumers.

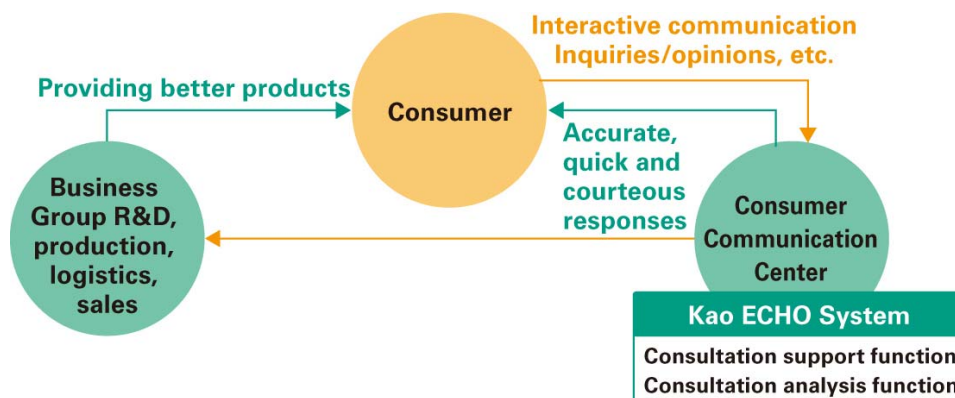
Structures

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

The database stores a wide range of information on all Kao products, ranging from basic product information to improvement histories and daily lifestyle information. By accessing this information, staff at the Consumer Communication Center can respond to consumer inquiries in a prompt and appropriate manner. In addition, while taking appropriate measures to protect personal information, the system makes a list of all consumer inquiries received each day and makes it available to all relevant divisions the following morning.

Based on this data, individual divisions analyze the trends in inquiries and the incidence (percentage of the number of inquiries to the number of pieces shipped) by product, and use the results in product development, marketing and quality improvement activities.

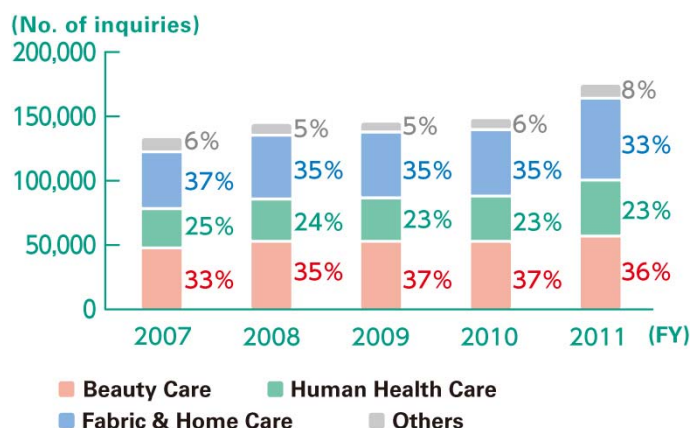
■ Mechanism to reflect consumer feedback in products



Number of consumer inquiries that we received by phone and e-mail in fiscal 2011:

Approximately 174,000 inquiries
(This number, 118% compared to the previous year, reflects the extensive publication of our toll-free number as well as calls related to the Great East Japan Earthquake.)

■ Number of consumer inquiries (data for Kao and Nivea-Kao)



Kao Group in Japan

Providing information on the Kao website

Kao utilizes its website to respond to consumer inquiries, providing detailed and timely information. Our current focus is making the information printed on each product publicly available on the website.

The product catalog site provides details such as product components, usage, and product warnings, matching products with consumer needs. We are also adding text-to-speech software to the website, enabling visually impaired consumers to listen to the text, supplemented by descriptions of graphs and the like. As our top priority is consumer safety and comfort, the website also provides essential information, such as the importance of a patch test on one's skin before using hair color, the proper use of aerosol products, and emergency treatment for when a product is accidentally ingested.

This wealth of information is also provided on our mobile site for the convenience of viewing on cell phones.



Product catalog: example of a table expressed in text format

The contents of the table is read aloud as text.

Kao Sustainability Report 2012

Inquiries:

The Customer Inquiry page offers numerous contact points reflecting the type of inquiry. Upon receiving several similar inquiries, we then publish the response as a specific topic, adding it to the Q&A site banner and other locations for quick resolution of customer concerns.



Inquiries

<http://www.kao.com/jp/soudan/>

Products Q&A:

This is a compilation of the many inquiries received from our customers, in question and answer format. Links to the product catalog provide a rich database of additional detailed information.



Products Q&A

<http://www.kao.com/jp/qa/index.html>

Product catalog:

Kao's consumer product catalog site offers the most complete compilation of all the information our customers may need—a sequential list of information appearing on package labels from some 1,100 items. As of March 2012, all products from the Fabric and Home Care Business and Human Health Care Business have been listed, with links to related Q&A entries for further details.



Product Catalog

<http://www.kao.com/jp/products/index.html>

Information on discontinued products:

Products no longer manufactured are removed from the product catalog six months following discontinuation, yet inquiries concerning such products continue to reach us long after such time. We have therefore consolidated information concerning all discontinued products in a dedicated publication—the product catalog for discontinued products.



Information on Discontinued Products

<http://www.kao.com/jp/products/haishihin/>

Kao Group in Japan

Interactive events

Among our interactions with various stakeholders, Kao recognizes the vital importance of activities directly involving the consumer to deepen mutual understanding. We proactively visit key consumer groups, consumer affairs administration offices, and local authorities handling consumer affairs to facilitate the exchange of information. We invite members of consumer groups to visit our plants and museums, encouraging the sharing of ideas. We also participate in events held for various consumer groups at the request of NPOs and governmental agencies. Kao continues to contribute to society through such beneficial activities.

Global

Globalization of consumer support activities

Kao is applying consumer support skills honed in Japan to activities carried out by overseas Kao Group companies as well. Since 2005, representatives from the nine Kao Group companies located in Asia have been gathering to share consumer support skills and consultation information, leading to more conscientious and defined responses. In 2009, Kao developed and implemented the Global ECHO System, a functionally simplified version of the Kao ECHO System used in Japan, to fortify consultation support functions throughout the Kao Group, leading to faster consumer support as well as stronger collaboration among Kao Group companies on a global basis.

Product Quality Management

Based on the consumer-driven principle of *Yoki-Monozukuri* spirit, Kao manages and assures the quality of products according to its own strict standards and rules at every step, from development to manufacturing, distribution and sales.

Policies

The foundation of Kao quality management activities is Kao's heartfelt *Yoki-Monozukuri* commitment from the perspective of its consumers/customers as expressed in the Mission of the Kao Way. Based on this, Kao has implemented quality management activities since its establishment with the participation of all employees in all phases, from research to product development, production, distribution and sales, with the aim of achieving the basic goals set for quality management activities.

For details, refer to the "Basic Policy for Quality Management Activities"
http://www.kao.com/jp/en/corp_csr/safety_00.html

Basic Policy for Quality Management Activities

- Consumers/customers decide on the quality of the products
- Providing products that users wish to continue to use
- Ensuring safe usage for consumers/customers
- Legal compliance
- Transparency and accountability

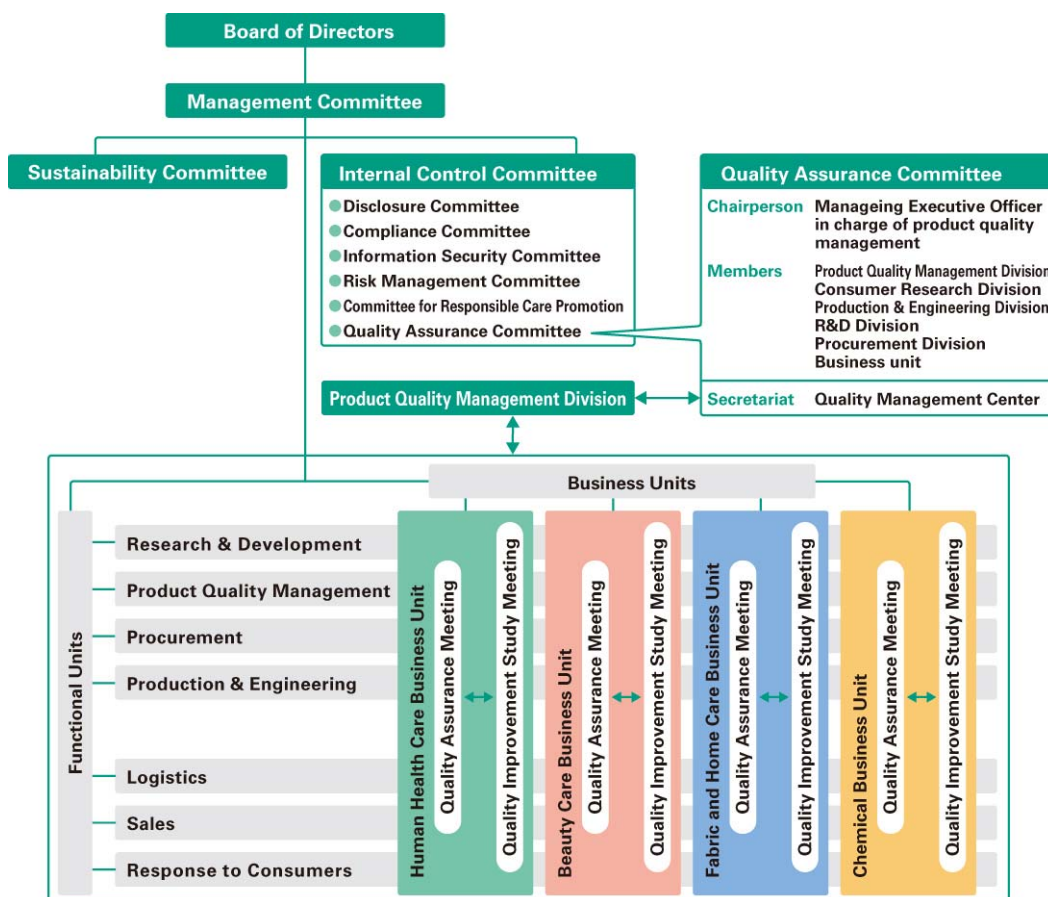
Structures

The Quality Assurance Committee, which consists of the Executive Officer in charge of product quality management and representatives selected from the business divisions, the consumer division, and the R&D, production, and procurement divisions, determines company-wide basic policies and checks quality management activities.

For each business unit, Quality Improvement Study Meeting, comprising the business divisions, the R&D, production and procurement divisions, and the consumer division, consider each product, performing a quality check for both new and improved products as well as examining how to enhance quality after a product's launch. Quality Assurance Meetings are held for Quality Assurance Committee members to confirm progress of important measures and issues.

This structure serves as the foundation for implementation of a customer/consumer-driven comprehensive quality management system.

■ Product quality management system



Global

Pursuing safety from a scientific perspective through consideration of actual use

Kao has established its own strict standards to govern the safety of its products, their impact on the environment, and the safety of food products. Based on these standards, Kao's Safety Science Research Laboratories implement scientific safety assessments of all materials and products.

Kao Corporation and Kanebo Cosmetics Inc. have been collaborating in an endeavor to establish safety assessment methods and technologies that do not involve animal testing. With regard to a skin sensitization testing, verification research on the testing methodology using cells that Kao developed in collaboration with Shiseido Co., Ltd. has begun at an alternative method verification center in Europe in 2010 (scheduled to finish in 2012). Verification research in Japan for an eye irritancy test using cells has been completed, and international examination is to follow. Additionally, Kao has been participating and playing an important role in several projects to develop new alternatives to animal testing that are being promoted by Cosmetics Europe—The Personal Care Association.*

With regard to product ingredients, characteristics, directions for use, warning labels, and the wording used in advertisements, responsibility is in the hands of the individual divisions, while for innovative subject matter,

including new usages, Product Safety Study Meeting discusses them from a social scientific perspective.

If unexpected problems, including product quality issues, should arise, the Product Quality Management Division immediately determines the level of danger and the possibility of its expansionary effect. Kao is further endeavoring to enhance the system to deal with emergencies in an appropriate manner, including cooperation with external parties such as administrative agencies and distribution partners to fulfill its responsibilities as a manufacturer, such as social responsibility, product quality responsibility, and accountability, promptly and with certainty.

* Cosmetics Europe—The Personal Care Association

The cosmetics industry's European trade association, established in 1962, currently comprises over 16 corporate members and over 25 national associations.

Global

Quality management activities throughout the entire product lifecycle

Kao promotes quality management activities for all products throughout the entire product life cycle from research, product development, production, distribution and sales to use, storage and disposal by consumers.

From research through product development, Kao conducts technical and stability inspections on all products.

In the production division, we confirm the capacity to mass produce products with the designed performance in the actual manufacturing facilities. In addition, Kao examines all wording on product packaging, including instructions for use, for safety, legal compliance, and ease of understanding. Kao's cross-check system requires each related division to approve every product, including divisions overseeing consumer relations, trademarks, and pharmaceuticals. We verify that product contents are clearly and simply stated on the product to avoid any mistakes upon purchase. We also examine the product's lifecycle after it leaves the store, questioning whether it can be stored properly in the home environment, whether the contents can be used up easily, whether contents can be refilled easily, whether the container is recyclable, and whether the container is designed to leave minimum waste at final disposal.

During fiscal 2011, Kao undertook various quality improvement initiatives, including quality enhancements to mark the global launch of *Blauné* foam hair color, new technology and design upgrades to utensils and containers used for prestige cosmetics, and stabilized quality for the *Megurhythm Eye Mask*.

Kao Group in Japan

Implementing an overhaul of quality issues

In fiscal 2011, we continued our overhaul of quality issues, reviewing those brought to our attention by consumers over the past three years and dealing with issues against which we failed to take sufficient measures. In particular, we resolved issues regarding fabric care products, such as liquid seeping from containers and leakage from refill bags due to defective or damaged notches. The production division also continued its comprehensive review of quality risks, conducting cleaning, sterilization, anti-bacterial activities at manufacturing facilities.

Global

Conducting quality management audits/self-audits

In fiscal 2011, we conducted 10 quality management audits including some in R&D and production divisions in Asia. As part of Kao's external audits, prefectural governments inspected authorization updates, license applications, and monitoring of manufacturing & sales businesses per the Pharmaceutical Affairs Act, and we successfully passed the inspection. In addition, external and internal audits of ISO 9001 systems, as well as audits of contract manufacturers and raw materials producers, were conducted in Japan, Asia, Europe and the U.S. The quality of the respective organizations' management systems was confirmed during meetings with each.

Global

Offering board member awards for product quality management activities

To promote product quality management activities, Kao has been offering "board member awards for product quality management" to its employees, including at its Group companies in Asia. In addition, Kao has been offering letters of appreciation for ongoing efforts.

Fiscal 2011 Board Member Awards

- Provision of GHS Safety Information via Material Safety Data Sheets (MSDS) and Labels
- Activities Aimed at Reducing Claims from Sanitary Product Consumers

**Fiscal 2011
"Letter of Appreciation"**
Not applicable

Kao Group in Japan

Implementation of thorough product quality management for food products

Kao's health food products, the result of vast research on lipid nutrition metabolism and other attributes, contribute to healthy, satisfying lifestyle habits. We conduct the following product quality management activities so that such delicious foods can contribute to the health of the customer.

1. Evaluations of the safety and effectiveness of products are conducted both independently and in cooperation with external experts, and even after launch, products are subjected to numerous evaluations.
2. Kao practices thorough quality management of all aspects of our work process from raw materials to manufacturing, and ensures traceability^{*1} that spans the entire course, from original materials^{*2} procurement overseas to the final shipping destination.
3. Kao focuses on managing product freshness through its production and distribution phases, including the management of "best-before" dates of raw materials, based on a system that prevents shipment of items exceeding a set post-manufacturing period.

In order to ensure that *Healthya*, a designated Food for Specified Health Use, has not been affected by radiation due to the accident at Fukushima's No.1 nuclear power plant, traceability has been reinforced since fiscal 2011, and all tea leaves used as raw ingredients are carefully checked for radioactivity before use.

***1 Traceability**

Verifying the original materials, use, manufacturing history, and location of products and raw materials using records

***2 Original materials**

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

Kao Group in Japan

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

Kao actively provides information regarding food product safety. On its website, Kao lists the ingredients of each of its products, as well as provides component analyses and warnings regarding allergenic substances. We are also prepared to respond quickly to inquiries about the country of origin of major ingredients and original materials. In response to frequent requests, Kao has provided additional information on specific countries of origin on our website as a matter of course.



"Ingredients, Containers and Safety Q&A"

"Ingredients, Containers and Safety Q&A"

<http://www.kao.com/jp/soudan/safety/>

The latest situation and future of *Econa*

In September 2009, after suspending production and sales of *Econa* products, a working group of experts was established at the Food Safety Commission, a government agency, to evaluate *Econa* products' effects on health. Kao has cooperated with the Food Safety Commission in the development of analytical methods and the submission of requested tests and materials relating to the evaluation.

Paralleling these investigations, Kao sought manufacturing methods to reduce glycidol fatty acid ester (GE) in *Econa* cooking oil, successfully reducing the level to that of other commonly-used cooking oils. We published our results in a research paper and submitted it to the Food Safety Commission.

As we await the Food Safety Commission's evaluation, we are proceeding with necessary preparations to reapply for "Food for Specified Health Use" approval of *Econa* products. We are again doing our utmost to deliver functional cooking oil that can contribute to the consumer's healthy lifestyle.

Protecting the Environment throughout the Product Lifecycle

“eco together” with Consumers/Customers: Development of Environmentally-conscious Product



To reduce environmental impact throughout the product lifecycle, we are promoting implementation of “eco together” activities with various stakeholders.

Product Lifecycle and Environmental Impact



Kao is pursuing efficient resource utilization throughout the product lifecycle, as well as technology to achieve further resource and energy saving.

Environmental Targets and Results



Kao is working to achieve its three priority objectives: global warming prevention, waste material reduction and CSR procurement.

Global Warming Prevention



We are engaged in energy conservation activities in a variety of settings, including production, distribution and office work.

Appropriate Management of Chemical Substances



Kao has created the original Comprehensive Management System for Chemicals and is realizing enhanced product quality, compliance and safety management.

Optimum Management of Waste Materials



Kao is reducing the environmental impact resulting from its business activities by minimizing wastes throughout the supply chain and through appropriate waste treatment.

Water and Soil Protection Measures



Kao is implementing a wide range of environmental protection activities, including efficient use of water resources and measures to prevent soil contamination.

Measures for Biodiversity



At Kao, we realize that our lifestyles and business benefit from the gifts of biodiversity, and we strive to conserve biodiversity in our business activities and activities to serve society.

Environmental Communication



Our ecology-centered management incorporates stakeholder opinions gathered by utilizing a variety of measures and opportunities.

Environmental Accounting



To efficiently and effectively promote its environmental activities, Kao quantifies the costs and results of those activities in numerical terms.

“eco together” with Consumers/Customers: Development of Environmentally-conscious Product

“eco together” with Consumers/Customers: Development of Environmentally-conscious Product

To reduce environmental impact throughout the product lifecycle, we are promoting implementation of “eco together” activities with various stakeholders.

Goals

Kao Environmental Statement stance

In 2009, Kao announced the Kao Environmental Statement and set the 2020 Medium-term Objectives, and is promoting efforts to achieve those objectives. To reduce environmental impact throughout the product lifecycle, from materials procurement, manufacturing, to distribution, sales, use, and final disposal, we are promoting three types of “eco together” activities with various stakeholders, including consumers/customers, business partners, and society.

There are four Medium-Term Objectives. For additional details concerning two of these objectives (Appropriate Management of Chemical Substances and Measures for Biodiversity) please refer to the following pages.

[> p. 63 “Protecting the Environment throughout the Product Lifecycle > Appropriate Management of Chemical Substances”](#)

[> p. 73 “Protecting the Environment throughout the Product Lifecycle > Measures for Biodiversity”](#)

Activities to achieve the Medium-term Objectives are being promoted by the Eco-Strategy Committee, a subcommittee of the Sustainability Committee.

Kao Group in Japan

1. CO₂

We are aiming for a 35% reduction in domestic CO₂ emissions for consumer products by 2020 (per unit of sales relative to fiscal 2005). In fiscal 2011, CO₂ reduction reached 21%. To reduce CO₂ emissions, we are engaged in a variety of efforts throughout the product lifecycle, from materials procurement, manufacturing, distribution, sales, use, and final disposal.

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

Kao Sustainability Report 2012

■ Changes in CO₂ emissions throughout the lifecycle of products



- Under the basic unit index, the CO₂ emissions per unit of sales from April 1, 2005 to March 31, 2006 are defined as 100.
- CO₂ emissions refer to emissions throughout the entire lifecycle of Kao products except the use and disposal of industrial products.
- Figures back to 2005 have been adjusted to reflect revised assumptions, including conditions of product use.

Efforts relating to containers and packaging materials are just one example of our activities.

To reduce CO₂ emissions derived from containers and packaging materials used in our Consumer Products Business, we reevaluated the packaging for all products. We are promoting the revision of packaging specifications to reduce the amount of plastic used, and switching to the use of paper and other materials that produce low amounts of CO₂. We are also continuing to expand the number of refill and replacement products, extending them to such products as facial cleansers and skin lotions, which come in comparatively small containers. We are aiming to achieve a 10% reduction in CO₂ emissions from containers and packaging materials by fiscal 2012 (compared to fiscal 2008). By fiscal 2011, we had achieved a 5.2% reduction.

■ Changes in containers and packaging materials used*

(Unit: tons)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY2011
Plastic	55,700	55,700	55,000	56,500	53,600	53,100
Paper	25,600	22,500	21,600	21,300	19,300	17,900
Cardboard	67,700	73,700	71,700	70,600	70,500	69,300
Others	3,600	3,400	2,700	2,300	2,000	2,000
Total	152,600	155,300	151,000	150,700	145,400	142,300

*Scope of data: Kao Corporation

Winning the Japan Star and other awards at the 2011 Japan Packaging Contest

The Japan Packaging Institute, whose goal is to develop and propagate superior packaging and related technology, hosts the Japan Packaging Contest. In the 2011 contest, Kao products won a variety of awards, including Japan Star Award (the President of Clean Japan Center Award).

Award: Japan Star Award (President of Clean Japan Center Award)

Product: *Bioré Sarasara UV Perfect Milk*

Reason for award: Evaluated from an environmental protection standpoint for using less plastic. By using a thin film instead of a plastic cover to hold the product in place, CO₂ emissions for packaging materials were reduced by approximately 80%.



Kao Sustainability Report 2012

Award: Good Packaging Award (Appropriate Packaging Award)

Product: Refill bottle of *Oriena Vital Supply Lotion*

Reason for award: Compared to the original glass bottles, CO₂ emissions were reduced by approximately 31%. In addition, the container design make refilling fast and convenient.



Award: Good Packaging Award (Appropriate Packaging Award)

Product: *Success Scalp Cleaning Brush*

Reason for award: The new packaging achieves an approximately 40% reduction in CO₂ emissions compared to the previous blister packaging. The compact design allows double the number of packages to be displayed on the shelf.



Receiving the Worldstar Award

Japan Star Award winner *Bioré Sarasara UV Perfect Milk* also won the Worldstar Award at World Star Contest 2011, hosted by the World Packaging Organization. Only winners of designated domestic packaging contests in each country are eligible for this contest. Packages from each country compete on the basis of ease of use, design and environmental consideration, with the goal of publicizing and propagating excellent packaging technology.

Development of refill packs using plant-derived polyethylene

Along with a reduction in the amount of plastic materials used, Kao is also promoting the use of biomass materials. Refill packs for *Merit Shampoo*, *Merit Rinse* and *Merit Rinse in Shampoo*, which went on sale in February 2012, are manufactured with material using approximately 10% plant-derived polyethylene. Because this material is manufactured from sugar cane, it is carbon neutral and emits no CO₂ upon burning. In addition, the packaging film is thinner than before, achieving an overall CO₂ emissions reduction of 12%. Going forward, we plan to expand the use of biomass material.



The container material is approximately 10% plant-derived polyethylene.

Merit refill pack

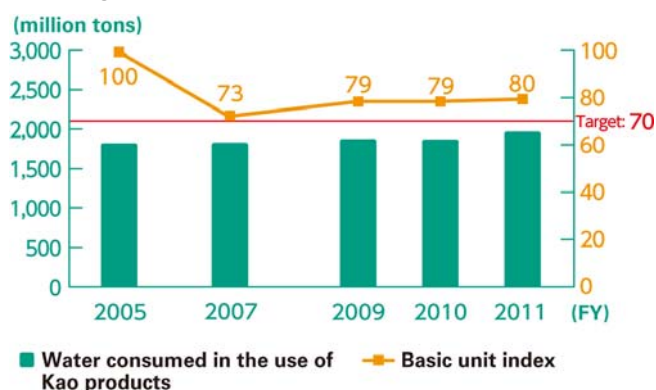
Kao Group in Japan

2. Water consumed in the use of Kao products

Kao is aiming for a 30% reduction in the total amount of water consumed in the use of Kao products for consumers by 2020 (per unit of sales relative to fiscal 2005). As of fiscal 2011, a 20% reduction had been achieved.

- Under the basic unit index, the water consumed in the use of Kao products per unit of sales from April 1, 2005 to March 31, 2006 are defined as 100.
- Water consumed in the use of Kao products excludes water consumed in the use of products for industrial use.
- Figures back to 2005 have been adjusted to reflect revised assumptions, including conditions of product use.

Changes in water consumed



Kao Sustainability Report 2012

Kao is seeking to expand its lineup of water-conserving products. Along with *Attack Neo* and *New Beads Neo*, ultra-concentrated liquid laundry detergents, in July 2011 we launched *Attack Neo Antibacterial EX Power*.

Compared to its previous formulation,^{*1} the new *Merit Shampoo* requires only around 80% as much water to rinse away.^{*2} We publicized these results at retailers and elsewhere, and through magazine advertisements and events, we generated awareness that the new formulation conserves water and benefits the environment.

*1. Merit Shampoo E3, on sale in 2008

*2. Kao study by Hair tress testing, January 2010



*Attack Neo Antibacterial
EX Power*

Reformulated
Merit Shampoo

Introducing a water conservation education program using “eco together diary”

Kao has prepared “eco together diary” as a next generation educational program for elementary school students. The objective is to teach children how to save water on a daily basis. The program goes in line with “Life and Water” in a social studies class for the fourth grade. The unique feature is that not only they can learn how to conserve water as knowledge, but also they can practice it and make it a daily habit through the program. In the introduction of the program in class, each student sets a goal for water conservation and writes down what they practice in “eco together diary.” In reviewing classes, they share each other’s practice and understand it adds up to a huge result as the practice of the entire class.

About 100 elementary schools adopted the program in fiscal 2011 in Japan. Kao hopes more elementary schools adopt the program and it contributes to make water conservation a habit in daily lives.



Introduction of the program



“eco together diary”



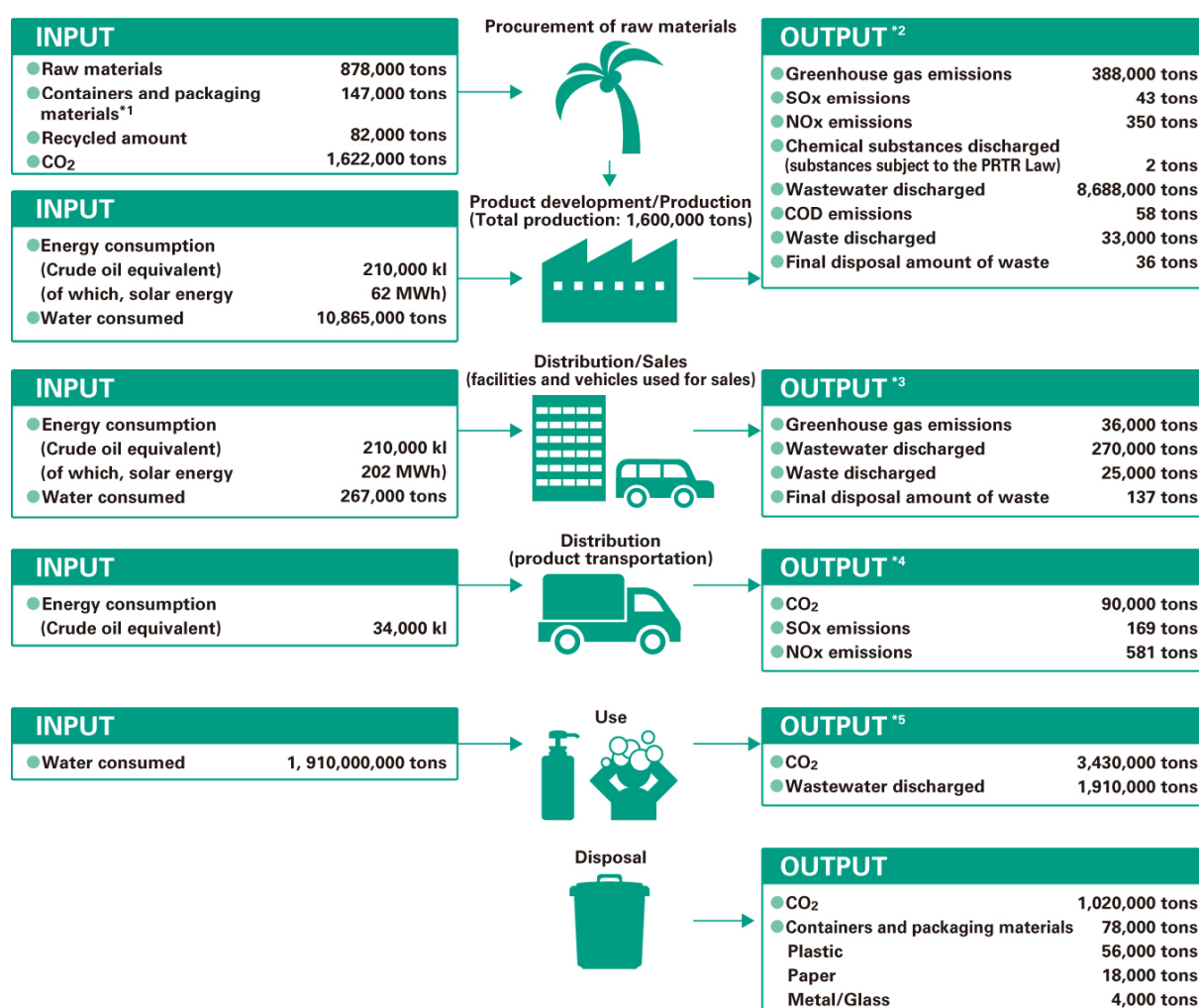
Water conservation stickers

Product Lifecycle and Environmental Impact

Kao is pursuing efficient resource utilization throughout the product lifecycle, as well as technology to achieve further resource and energy saving.

Kao Group in Japan

Fiscal 2011 business operations and environmental impact (Kao Group in Japan)



*1. Excludes cardboard used by Kanebo Cosmetics.

*2. Figures for all domestic Kao Group plants. Energy figures are total energy including energy not used directly for production, such as in offices, and waste.

*3. Figures for all domestic Kao Group offices (including research facilities, company dormitories, etc.).

*4. Estimates for CO₂, SO_x and NO_x emissions derived from traffic volume of consumer products (from a plant to a distribution hub), industrial products, raw materials, etc.

*5. Calculated by Kao Corporation.

INPUT

▼Raw materials

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

▼Containers and packaging materials

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

▼Recycled amount

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

▼Energy consumption (product development and production)

Amount of energy consumed at production sites

▼Energy consumption (distribution and sales [facilities and vehicles used for sales])

Amount of energy consumed at offices and other facilities and for vehicles (used for sales activities) in the distribution and sales divisions

▼Energy consumption (distribution and sales [product transportation])

Amount of energy consumed as calculated from traffic volume of consumer and industrial products, raw materials, etc.

▼Water consumption

Industrial water, tap water and well water consumed

▼CO₂

CO₂ emitted, including during raw material processing

OUTPUT

▼Greenhouse gas emissions

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

▼SOx emissions

Total amount of SOx emissions from smoke-and-soot-emitting facilities and transportation

▼NOx emissions

Total amount of NOx emissions from smoke-and-soot-emitting facilities and transportation

▼Chemical substances discharged

Amount of substances subject to the PRTR Law discharged into the air and public water

▼Wastewater discharged

Sum of wastewater discharged from production plants, distribution and sales offices and the water consumed in use of consumer products

▼COD emissions

Amount of COD contained in wastewater

▼Waste discharged and final landfill disposal amount of waste

Amount of waste from production sites, distribution and sales offices, and other facilities that is sold or entrusted as waste or recyclable materials to waste treatment companies, and the amount of waste put for final landfill disposal CO₂ emissions

▼CO₂

Emissions from consuming energy and those upon decomposition of ingredients

▼Containers and packaging materials

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

Environmental Targets and Results

Kao is working to achieve its three priority objectives: global warming prevention, waste material reduction and CSR procurement.

Goals

Kao Group in Japan

Fiscal 2011 results and targets for the future (Responsible Care Activities)

With the achievement of the 2010 Medium-term Objectives, Kao has established new Medium-term Objectives for 2015. These new goalposts have been situated with respect to the Kao Environmental Statement's 2020 Medium-term Objectives, with numerical targets to ensure that activities are promoted toward specified targets.

A new target for waste reduction from offices and sales locations was established for 2011. While we were successful in meeting the target for final landfill disposal, we were not able to meet the waste material reduction target due to the building relocation required by the concentration of Head Office functions and the consequent increase in waste. We were able to meet other important targets, including greenhouse gas emissions, through energy conservation and other activities.

■ Environmental activity targets and results (fiscal 2011)

Category	Index		Relevant division	Fiscal 2011 targets		Fiscal 2011 results	
Global warming prevention (CO ₂ emissions)	Emissions* ¹ (vs. fiscal 1990)		Production sites	-15%	15% emission reduction	-25%	23% emission reduction
			Head Office, sales locations and distribution centers (facilities and sales vehicles)	-16%		-26%	
	Per unit (vs. fiscal 1990)		Production sites (per unit of value added* ²)	-45%		-47%	
			Product transportation (per unit of sales volume* ³)	-16%		-17%	
Waste material reduction	Emissions	Absolute amount (vs. fiscal 2009)	Head Office, sales locations	-8%		-4%	
		Per unit* ⁴ (vs. fiscal 2005)	Production sites and distribution centers	≤ -10%		-14%	
	Final landfill disposal amount* ⁵		Production sites and distribution centers	Zero emissions (final landfill disposal ratio* ⁶) less than 0.1%		0.08%	
				≤ 215 tons		107 tons	
			Head Office, sales locations	≤ 72 tons		66 tons	
CSR procurement* ⁷	Green procurement ratio	Kao Corporation		100%		100%	
		Kanebo Cosmetics		Initiate activities		Initiate activities	

To effectively evaluate activities, the appropriate targets are established for each division respectively.

*1. Emissions

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

*2. Per unit of value added

Emissions of greenhouse gases per unit of value-added production output.

Kao Sustainability Report 2012

Value-added production output is the sales value of production output less variable production costs.

*3. Per unit of sales volume

Standard unit of transportation energy per unit of sales volume.

*4. Per unit of production output

The sum of total production at production sites and sales weight divided by the amount of waste generated, multiplied by 100.

*5. Final landfill disposal amount

The amount of ultimately unusable waste safely buried in landfill.

*6. Final landfill disposal ratio

Calculated by dividing the amount of waste ultimately buried in landfill by the amount of waste generated and multiplying by 100. Kao defines zero emissions as a final landfill disposal ratio of less than 0.1%. The amount of waste generated includes unneeded production byproducts including defective products (old paper, metal and other substances of value, and other things that can be used at other production sites).

*7. CSR procurement

This refers to prioritized use of environmentally and/or socially responsible suppliers when procuring necessary production inputs. The green procurement ratio is the proportion of supplier production sites utilizing environmental management systems (EMS) at suppliers' sites covered by the environmental conservation surveys.

Kao's zero emissions target value

Zero emissions are defined as reached when the waste recycling rate exceeds 99.9%.

The actual calculation is an estimate of the amount (weight) of ultimately unrecyclable waste buried in landfill. When this amount falls below 0.1% of total emissions produced, this is defined as zero emissions.

(Final landfill disposal amount ÷ waste generated × 100 = final landfill disposal ratio. If this ratio is < 0.1%, emissions = 0.)

■ Environmental activity targets (fiscal 2012 and 2015)

With the change in our accounting period, activities are now shown for the period January to December, rather than April to March.

Kao will further strengthen its efforts to reduce waste and other emissions produced and achieve zero emissions. To this end, we have established a new goal of expanding our zero emissions activities beyond the current scope of production sites and distribution centers and aim for a final landfill disposal ratio of less than 0.1% for the entire company, including the Head Office and sales locations, by 2015.

Category	Index		Relevant division	Fiscal 2012 targets		Fiscal 2015 targets
Global warming prevention (CO ₂ emissions)	Emissions* ¹ (vs. fiscal 1990)		Production sites	-16%	16% emissions reduction	22% emissions reduction
			Head Office, sales locations and distribution centers (facilities and sales vehicles)	-17%		
	Per unit (vs. fiscal 1990)		Production sites (Per unit of value added* ²)	-46%		
			Product transportation (per unit of sales volume* ³)	-17%		
Waste material reduction	Emissions	Absolute amount (vs. fiscal 2009)	Head Office, sales locations	≤ -12%		≤ -25%
		Per unit* ⁴ (vs. fiscal 2005)	Production sites and distribution centers	≤ -11%		≤ -15%
	Final landfill disposal amount* ⁵		Production sites and distribution centers	Zero emissions (Final landfill disposal ratio* ⁶) less than 0.1%		Zero emissions (Final landfill disposal ratio* ⁶) less than 0.1% (whole company)
				≤ 199 tons		≤ 150 tons
			Head Office, sales locations	≤ 64 tons		≤ 40 tons
CSR procurement* ⁷	Green procurement ratio		Kao Corporation	100%	95% (Kao Group target)	Global warming prevention, biodiversity, Add Process safety and disaster prevention perspective
			Kanebo Cosmetics	Expand scope of study		

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*1. Emissions

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

*2. Per unit of value added

Emissions of greenhouse gases per unit of value-added production output.

Value-added production output is the sales value of production output less variable production costs.

*3. Per unit of sales volume

Standard unit of transportation energy per unit of sales volume.

*4. Per unit of production output

The sum of total production at production sites and sales weight divided by the amount of waste generated, multiplied by 100.

*5. Final landfill disposal amount

The amount of ultimately unusable waste safely buried in landfill.

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Calculated by dividing the amount of waste ultimately buried in landfill by the amount of waste generated and multiplying by 100. Kao defines zero emissions as a final landfill disposal ratio of less than 0.1%. The amount of waste generated includes unneeded production byproducts including defective products (old paper, metal and other substances of value, and other things that can be used at other production sites).

*7. CSR procurement

This refers to prioritized use of environmentally and/or socially responsible suppliers when procuring necessary production inputs. The green procurement ratio is the proportion of supplier production sites utilizing environmental management systems (EMS) at suppliers' sites covered by the environmental conservation surveys.

Global Warming Prevention

We are engaged in energy conservation activities in a variety of settings, including production, distribution and office work.

Kao Group in Japan

Production site efforts in fiscal 2011

Following the installation of a heat pump at our Sumida Plant in fiscal 2010, we installed a cold- and hot-water producing heat pump at our Toyohashi Plant in fiscal 2011. As a result, we were able to complete a highly efficient production facility for both hot and cold water.

Like the air-source heat pump installed at the Sumida Plant, the heat pump installed at the Toyohashi Plant can not only use waste energy from the atmosphere or wastewater as a heat source, but can also draw heat from locations that need cooling, such as for production processes, and direct that heat to locations where it is needed. This makes it possible to raise the coefficient of performance (COP)^{*1} by a factor of approximately two.^{*2}

In conjunction with solar power generation facilities installed in 2010, we will actively seek to expand the use of renewable energy going forward.

In addition, by promoting a transition to higher-efficiency air conditioning systems in our production divisions, we will undertake to conserve energy and promote early discontinuance of equipment that employs harmful CFCs.

As a result of these efforts, total energy used at our production sites in fiscal 2011 was reduced by 4.2 thousand kiloliters (kl) crude oil equivalent, compared to the previous year, or 0.2 points in terms of the basic unit index (value-added production output). This also represents an improvement of 41 points over the same figure for fiscal 1990. In addition, due to worsening electric power emission factors and the use of on-site generators to offset power supply shortages, greenhouse gas emissions (CO₂ equivalent) increased by 3.7 thousand tons over the previous year. However, the total was still 132 thousand tons (25%) less than in fiscal 1990, an improvement of 47 points in terms of the basic unit index (value-added production output). We thus were able to meet the goal that had been set.

Heat pump power used

Fiscal 2011: 266 MWh

Energy used: 25 kl (crude oil equivalent)

Energy derived: 66 kl (crude oil equivalent)

Solar power generated

Fiscal 2011: 62 MWh (crude oil equivalent 6 kl)

Procured electricity equivalent: (crude oil equivalent 16 kl)

*1. A measure of efficiency for air conditioning equipment. Higher values indicate greater efficiency.

*2. Heat input (atmospheric, geothermal, hydrothermal) to heat pumps is defined as renewable energy by the Act on the Sophistication of Energy Supply Structures.

Kao Group in Japan

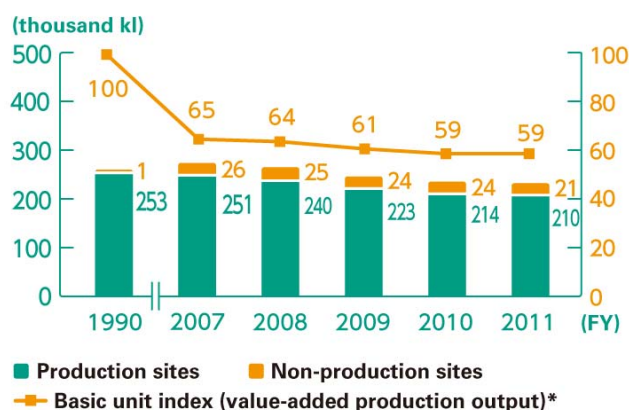
Reducing environmental impact at offices

Kao is taking part in the nationwide Challenge 25 Campaign, and working to reduce CO₂ emissions at offices as well.

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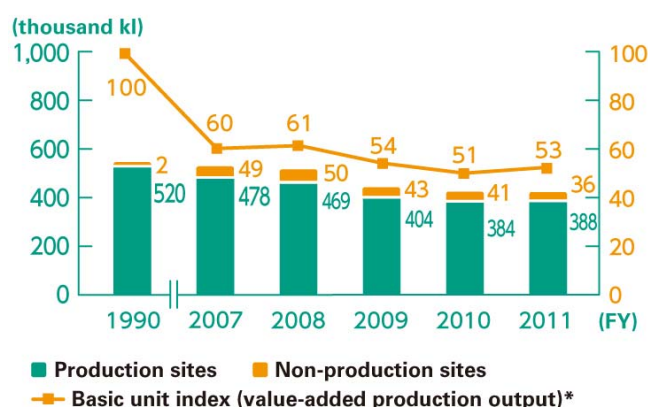
In addition to launching the Cool Biz and Warm Biz campaigns in 2005, since fiscal 2010 we have reduced the number of available elevators outside morning rush hours, begun transitioning to the use of LED lighting, introduced a Building Energy Management System (BEMS) to monitor and eliminate unnecessary energy use, and conducted various other activities to minimize environmental impact. We promoted a variety of measures, principally in eastern Japan, adding reduction of peak energy use to our objectives. As a result of these activities, we were able to reduce electric power consumption by 11 MWh (16%) compared to fiscal 2010. When municipal gas for air conditioning and other uses is included, the crude oil equivalent reduction amounted to 2,900 kl, or 4,400 tons of CO₂.

■ Changes in energy consumption



*Production site data have been calculated to maintain continuity in the basic unit index (value-added production output).

■ Changes in GHG emissions



*Production site data have been calculated to maintain continuity in the basic unit index (value-added production output).

Kao Group in Japan

Reducing environmental impact in distribution

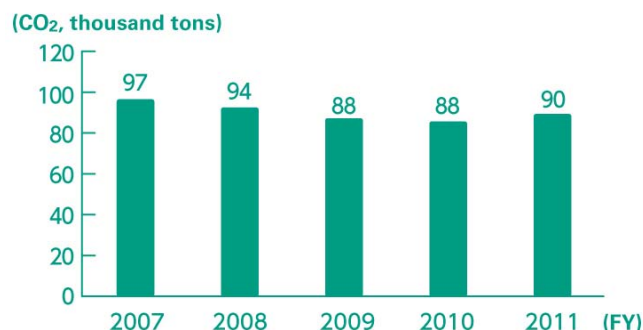
To reduce the environmental impact from distribution, Kao has been striving to raise the fuel efficiency of its distribution fleet through ongoing efficient system building and operation, modal shift, and the use of drive recorders.*

We have also expanded the area within which we engage in joint shipping of products with other companies, and are promoting efforts in earnest.

While our announced goal for fiscal 2011 was a 16% reduction in transportation energy, we actually exceeded this goal with a 17% reduction. However, transportation energy and CO₂ emissions figures rose significantly over the previous year due to the influence of the Great East Japan Earthquake.

In terms of transport from production sites to

■ Changes in CO₂ emissions from transportation*



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

Kao Sustainability Report 2012

distribution centers, damage at consumer products production sites in eastern Japan required us to distribute all sanitary products, such as disposable diapers, from production sites in western Japan. As a result, until all production sites in eastern Japan achieved full recovery in July 2011, the average required distribution distance was 50% greater than previously. Moreover, the impact on transport infrastructure, including rail and sea transport, caused a major increase in CO₂ emissions during the affected period.

Kao's Sendai Logistics Center (LC), serving four prefectures in the Tohoku area, sustained direct damage from the March 2011 tsunami. Until its shipping functions were restored in mid-June of that year, shipments from distribution centers to retailers were handled from facilities in adjacent prefectures. This resulted in overall longer shipping distances, lower load ratios, and an increase in the number of trucks used.

The restoration of transportation infrastructure and the recovery of plants and the Sendai LC after July 2011 helped reduce the environmental impact and achieve levels lower than the previous year. Going forward, we will continue working to further improve transport efficiency.

*Drive recorder

A system that monitors driving habits

Kao Group overseas

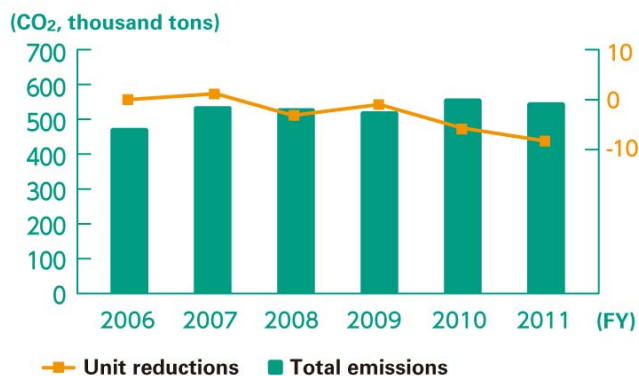
Activities at overseas production sites (Taiwan)

As in Japan, energy conservation and the reduction of CO₂ emissions is a national priority for Taiwan. A variety of activities to lessen the impact on the environment are also being promoted at the production site of Kao (Taiwan) Corporation. Energy conservation efforts have been under way at our production centers for some time, but now we are extending the scope of those activities and reevaluating the shipping of products from a supply chain perspective. Through optimized routing and reducing the distance traveled by trucks, we are further conserving energy and reducing CO₂ emissions. The result of these efforts was an 11% year-on-year reduction in CO₂ emissions (relative to total production) for 2011. Going forward, we will redouble our efforts to reduce the impact on the environment.



Distribution warehouse and trucks, Kao (Taiwan)

Changes in CO₂ emissions from overseas production sites*



*Overseas production sites (21 plants) are covered.

*Conversion factors have been changed retrospectively.

Fossil fuel: Conversion factors for Asian countries are changed from Japan's Act on Promotion of Global Warming Countermeasures factors to those submitted to regulators, or IPCC factors.

Procured steam: Taiwan factors are changed from Japan's Act on Promotion of Global Warming Countermeasures factors to those submitted to regulators.

Procured power: Factors for each country are changed from those calculated by Kao based on IEA data to those submitted to regulators, or IEA official factors.

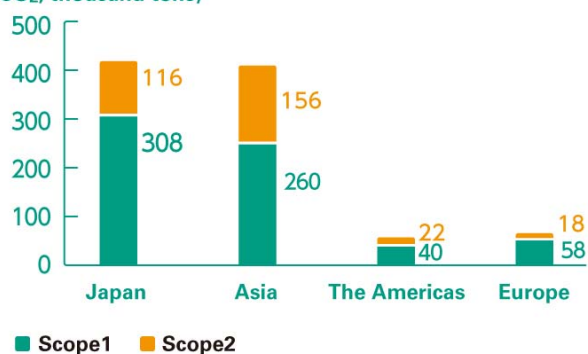
Global

Greenhouse gas emissions by scope

Management of greenhouse gas emissions from corporate business activities on the basis of scope has become a global standard. Scope 1 and Scope 2 emissions for the Kao Group are as follows.

■ Fiscal 2011 Greenhouse Gas Emissions by Scope and Region

(CO₂, thousand tons)



Basis of calculation

Japan: Six gases emitted by production and non-production sites (including sales vehicles).

Asia, the Americas, Europe: CO₂ only, from production sites (21)

Scope 1: Emissions resulting directly from corporate activities

Scope 2: Indirect emissions from energy used in corporate activities

Appropriate Management of Chemical Substances

Kao has created the original Comprehensive Management System for Chemicals and is realizing enhanced product quality, compliance and safety management.

Policies/structures

Since 2001, Kao has been operating its Comprehensive Management System for Chemicals, a database of products, materials, and ingredients, each of which is given a common group-wide master code (Master Index).

This system allows us to check safety, antiseptic qualities, related regulations and laws, and other information instantly for each product, material and ingredient group. Therefore, should a problem occur with quality or some other matter, the potential affected area can be identified immediately to enable us to take quick countermeasures.

The data stored in the system is shared among and utilized by the procurement, R&D, production, quality assurance, environment and safety, and other divisions, functioning as the backbone of *Yoki-Monozukuri*.

In fiscal 2011, in response to the amended Chemical Substances Control Law (Japan), we added production and importation volume tracking system of relevant substances to the database for unified management of information relating to chemical substance use both inside and outside the company. In June 2011, we submitted information on usage volumes by substance to Competent Authority in Japan. In addition, in support of JAMP*¹ and the Japan Chemical Industry Association (JCIA), and as a principal member of the OR²IS*² project, a multi-industry project composed of industry associations, we participated in the joint proposal for sharing of REACH*³-related information between supply chains outside the EU region, keeping the confidential information in each enterprise. The GREEN eBASE for OR²IS System, which incorporates this perspective, was released by eBASE Co., Ltd. in 2011 and adopted by Kao in March 2012.

*1. JAMP (Joint Article Management Promotion-consortium)

An initiative established in September 2006 to promote cross-industrial activities to appropriately manage information on chemical substances contained in components and other articles, and smoothly disclose and share such information across the supply chain

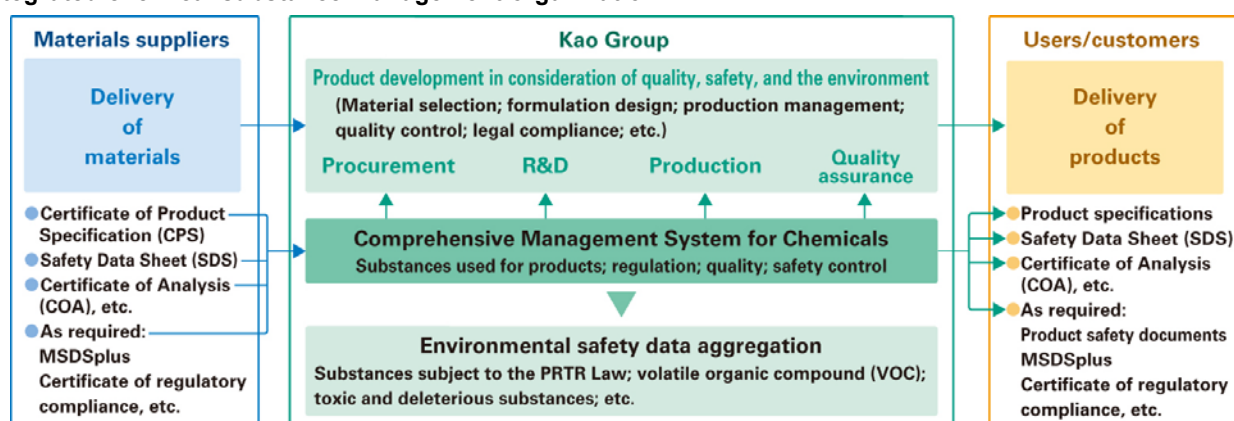
*2. OR²IS (OR-Related REACH Information Sheet)

The REACH framework was implemented in Europe on June 1, 2007. In conformance with this framework, enterprises in supply chains outside Europe must use a registered only representative (OR) and operate within the structure developed to effect REACH reporting (standardized information sheet)

*3. REACH (Registration, Evaluation, Authorization and Restriction of Chemicals)

Registration, Evaluation, Authorization and Restriction of Chemicals, an EU regulation framework

Integrated chemical substance management organization



Global

Complying with REACH chemical regulation in the EU

The Kao Group completed its registration regarding REACH Phase 1 substances (centering on substances produced in, or imported into, the EU in amounts exceeding 1,000 tons annually) by the deadline of the end of November 2010. As the only representative (OR), Kao Chemicals Europe (KCE), Kao's production base in Europe, carried out registration of substances for importation into the EU from Kao Group companies in Japan, Asia, and the Americas. Registered substances include fatty alcohols, fatty amines, surfactants and fragrances. If EU Competent Authority request additional safety testing for these substances, we will cooperate, and we are gathering importer information and import volume statistics from all related importers into a database that will be updated annually.

The Kao Group will proceed to register Phase 2 substances (substances produced or imported in volumes of 100 to 1,000 tons per year) by the end of May 2013, and Phase 3 substances (substances produced or imported in volumes of 100 tons or less per year) by the end of May 2018, after selecting substances to be registered by taking global business conditions and the future needs for substances into consideration.

Global

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 line with the Strategic Approach to International Chemicals Management (SAICM) policy framework, the introduction and revision of chemical substance-related regulations have been widespread, including the introduction of the EU's REACH and the amendment of Japan's Chemical Substances Control Law, and there have been conspicuous moves toward minimizing chemical substance significant risk by 2020. In line with these moves, in 2010 JCIA initiated its Japan Initiative of Product Stewardship (JIPS)*¹ initiative to strengthen the control of chemical substances through voluntary activities.

As part of its active efforts to appropriately control chemical substances in line with SAICM, Kao is participating in a working group for JIPS activity promoted by JCIA.

In the area of product disclosure, we have been using voluntary Safety Data Sheets (SDS)*² for all chemical products we sell. We have also been following the GHS*³ system for product labeling. Beginning in January 2011, we adopted the Japan Soap and Detergent Association (JSDA)'s voluntary industry standard, and added GHS labels to certain applicable consumer products—*Cucute* and *Haiter* products.

We will expand our provision of safety-related information in line with global movements, and reinforce our organizational structure to realize SAICM's goal of minimizing significant risks to human health and the environment resulting from the production and use of chemical substances by 2020.

*1. JIPS (Japan Initiative of Product Stewardship)

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.

GHS mark displayed on the *Haiter* bleach container. Kao adheres to JSDA guidelines and has added GHS marks for dishwashing detergents (excluding detergents for automatic dishwashing machines), chlorine bleach, and chlorine cleansing agents.



*2. SDS (Safety Data Sheet)

The SDS provides information to ensure safe and appropriate handling of chemicals, such as names of substances contained in the product, information about potential hazards, and handling precautions. The former Material Safety Data Sheet (MSDS) was renamed SDS per JIS Z 7253, issued March 2012.

*3. GHS (Globally Harmonized System of Classification and Labeling of Chemicals)

An internationally agreed-upon system for classification and labeling of chemicals according to the type and level of hazard, easily understood labeling of information on chemicals, and preparation of SDS. The system was implemented in Japan in 2006 via the Industrial Safety and Health Law, and has already been adopted in Taiwan, China, Korea, Singapore and the EU.

Global

Reinforcement of information management of chemicals

1. SDS and use of GHS label marks

Kao promotes the issuance of GHS-compliant SDS for chemical products in countries which had introduced GHS, as well as GHS-compliant product labeling.

For our Chemical Business, including Kao and Asian affiliates, we have been managing GHS-compliant SDS and product labeling in the language of the importing country and integrated management by our Comprehensive Management System for Chemical Substances since 2008.

In fiscal 2011, we promoted product labeling in the language of the importing country for products produced by our Japanese and Asian affiliates for export to Japan, Taiwan, Korea, China, and the EU. Furthermore, we added Thai and Bahasa Indonesia to our SDS system and began the production of SDS and GHS-compliant labeling with Asian affiliates cooperation. We also began attaching labels in the language of the importing country for products exported to Taiwan, Korea, and China through our Japanese customers.

2. Disclosure concerning chemical substance content

As a founding member of JAMP, Kao has been actively involved in the creation of the chemical substance content disclosure framework for MSDSplus.* Version 3.1c, which was released in 2011, was quickly followed by Version 4.0, a major revision, in January 2012. These revisions were distributed to customers through sales distributors and announced on our home page.

*MSDSplus

Information transmission sheet for information on chemical substances contained in product.

3. REACH compliance

Kao is complying with REACH registration requirements (including tonnage limits and deadlines) for chemical products directly or indirectly exported to the EU. Ensuring compliance with REACH regulations requires the sharing of importer, registration, and other information, obtained through the supply chain, between the only representative (OR) and the EU importer.

In response, we have adopted OR²IS, a jointly developed system for efficient supply chain information sharing consistent with the protection of corporate confidential information. In conjunction with the introduction of this system, we requested cooperation from our customers in sharing REACH-related information using OR²IS. In March 2012 we held OR²IS system orientation meetings in Tokyo and Osaka for sales distributors, and actively promoted activities to encourage cooperation from sales distributors in complying with REACH-related



OR²IS system orientation for distributors

Kao Sustainability Report 2012

information exchange.

In fiscal 2012 we will begin full-scale use of OR²IS to carry out efficient acquisition and sharing of required information through the supply chain and to promote REACH compliance ahead of the next REACH registration deadline in 2013.

Kao Group in Japan

Promotion of consolidated management of packaging materials information

Kao is promoting the close tracking of information on chemical substances contained in packaging materials used for chemical products. We have been working with our packaging materials suppliers to familiarize them with the importance of managing chemical substances in their materials, and have been encouraging the acquisition and sharing of data through the use of Article Information Sheets (AIS)* in the supply chain.

In fiscal 2011, we created a Packaging Material Information Management System database for tracking the chemical substance content of individual packaging materials. We plan to strengthen information standardization to expand the range of information tracking as well as enhance the level of information management.

*Article Information Sheet (AIS)

A sheet created by JAMP to transmit information on chemical substances contained in product used for articles

Kao Group in Japan

Activities in strict compliance with the Chemical Substances Control Law

In response to April 2011 enactment of the amended Chemical Substances Control Law, in fiscal 2011 Kao initiated a unified system for the management of information concerning volumes of chemical substances produced, imported, and shipped, and the usages within and outside of the company.

In fiscal 2011, as it is necessary to quickly obtain usage information and to systematically manage them for new shipments of chemical products, we created a cooperative structure with sales distributors for obtaining and transmitting usage information, and undertook to raise the efficiency of our daily information gathering work.

Kao Group in Japan

Monitoring and control of emissions of chemical substances subject to the PRTR Law

The number of chemical substances subject to the PRTR Law which Kao handled during fiscal 2011 was 77, and the total discharge of such substances into the air and public water areas was 1.5 tons. In 2010 and 2011, we achieved our goal of maintaining annual emissions of each chemical substance from respective plants at 1 ton or less.

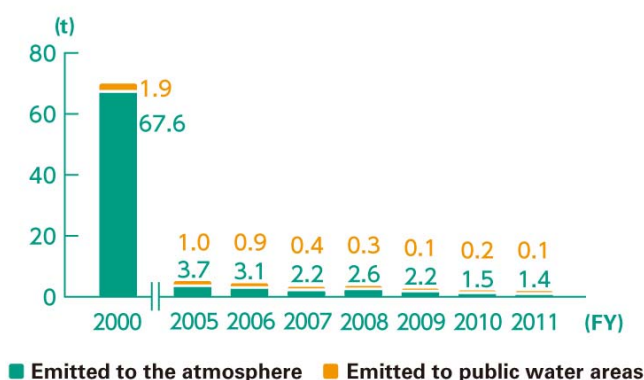
In addition, we are voluntarily monitoring and controlling emissions and movement of 107 substances that are not subject to the PRTR Law.

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For details, refer to the “List of Emissions of Substances Subject to PRTR Law”

http://www.kao.com/jp/en/corp_csr/eco_activities_02_07.html

■ Emissions of chemical substances subject to the PRTR Law



Kao Group in Japan

Management of VOC emissions based on voluntary activity goals

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

In fiscal 2011, Kao surveyed the 100 VOC substances defined in the Notice of the Director General of the Environmental Management Bureau, Ministry of the Environment. The total discharge into the atmosphere was 8 tons, meaning Kao achieved its target of maintaining annual emissions of each substance from respective plants at 1 ton or less.

Kao Group in Japan

Proper storage and disposal of PCBs

Until final disposal is carried out, PCB waste including transformers, condensers, fluorescent light ballast, and other equipment utilizing insulating oil containing polychlorinated biphenyl (PCB), are carefully stored at our plants in Wakayama, Tokyo, and Kawasaki, as well as at the Odawara Plant of Kanebo Cosmetics, in accordance with the requirements of the Waste Management and Public Cleansing Act and the Law Concerning Special Measures Against PCB Waste. PCB wastes registered with the Japan Environmental Safety Corporation (JESCO), an organization to which Kao entrusts PCB waste treatment, are undergoing disposal processing. In fiscal 2011, 95 units of equipment (0.4 tons in total) were transported to JESCO's PCB treatment facilities.

Optimum Management of Waste Materials

Kao is reducing the environmental impact resulting from its business activities by minimizing wastes throughout the supply chain and through appropriate waste treatment.

Kao Group in Japan

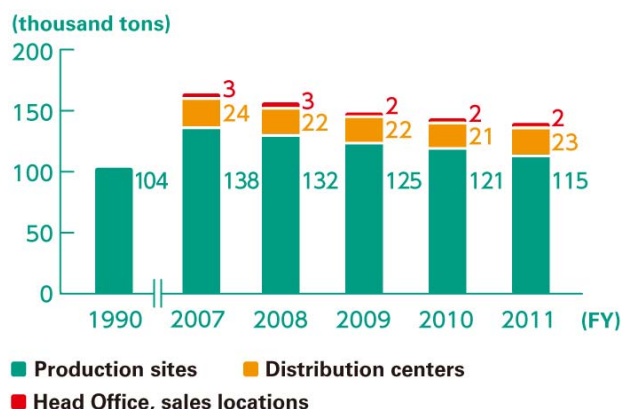
Efforts toward zero emissions

Kao places importance on the 3Rs in the order of reduce, reuse, and recycle, and based on this policy is carrying out various projects to minimize the generation of waste and reduce the final landfill disposal amount to close to zero as part of its efforts to create a recycling-based society.

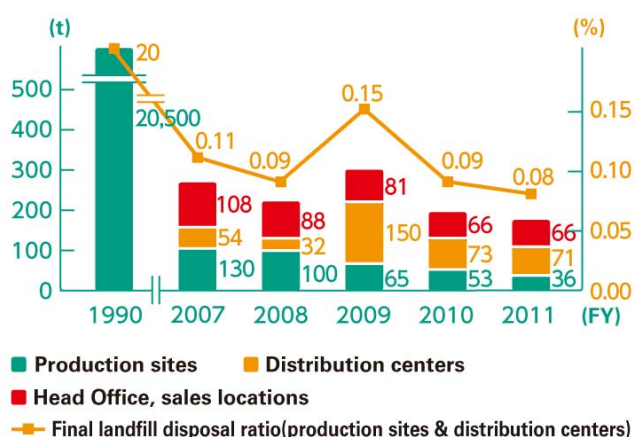
In fiscal 2011, we worked to meet our target of a 10% reduction, compared to 2005, of waste generation per unit of production output*¹ for the total of waste generated by our production sites and distribution centers. We also aimed for an 8% reduction, compared to 2009, in total waste generation by the head office and sales centers. As a result of these efforts, waste generation per unit of production output for our production sites and distribution centers was 14% lower than the figure for 2005, which met our goal. However, the reduction in total waste generated by the head office and sales centers fell short of our goal at only 4% below the figure for 2009. The principal reason for this outcome was building relocation for Kao Customer Marketing Co., Ltd. and Kanebo Cosmetics Inc. and the resulting generation of waste material.

The combined target for final landfill disposal from production sites and distribution centers was less than 215 tons, with a final landfill disposal ratio*² of less than 0.1%. The combined target for head office and sales centers was less than 72 tons. As a result of our efforts to reduce final landfill disposal, the total for production sites and distribution centers was 107 tons, for a final landfill disposal ratio of 0.08%, while the head office and sales center total was 66 tons. Final landfill disposal has been zero every year since 2006 for our Toyohashi plant and since 2010 for Ehime Sanitary Products Company, Limited.

Changes in amount of waste generated



Changes in final landfill disposal amount and final landfill disposal ratio



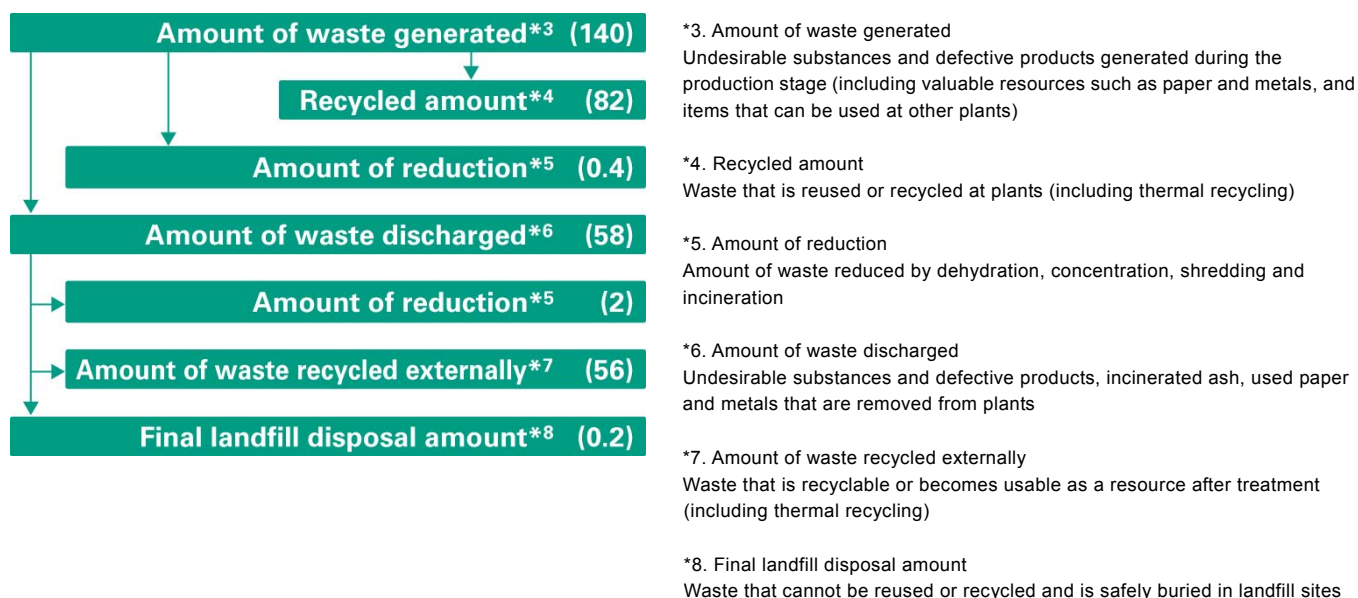
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We will further strengthen our efforts to reduce the generation of waste material and achieve zero emissions, and we will further strengthen waste segregation by type and carry out performance reviews for our waste treatment subcontractors. In particular, we will expand the scope of our zero emission efforts from the current production sites and distribution centers, and have established a new goal of achieving an overall final landfill disposal ratio of less than 0.1% for the entire company, including the head office and sales centers, by 2015. We also believe that reducing final landfill disposal resulting from the incineration of general waste is important, and will strengthen efforts to reduce the generation of this type of waste.

*1. Waste generation per unit of production output
Amount of waste generated per total production

*2. Final landfill disposal ratio
Final landfill disposal ÷ waste generated × 100. Kao defines zero emissions as a final landfill disposal ratio of less than 0.1%.

■ Amount of waste generated and treatment flow (fiscal 2011)



Kao Group in Japan

Disposal of goods and equipment damaged in the Great East Japan Earthquake

Kao Group production sites, distribution centers and sales locations sustained damage in the Great East Japan Earthquake. This involved damage to goods in inventory, to facilities, and other types of damage. All damaged goods and equipment were carefully processed as waste.

The total of damaged goods and equipment processed by the end of March 2012 included 1,060 tons at production sites, 1,730 tons at distribution centers, and 7 tons at sales locations.

Most waste material processed included paper, plastic, metal and other materials that are recyclable as raw materials. Waste that could not be immediately recycled was incinerated for subsequent use as roadbed material, cement material, or for other uses. As a result, a mere 11 kg of waste was ultimately disposed of in landfill. Processing of remaining waste is proceeding without incident, and none of the materials has exceeded radiation limits set by waste treatment subcontractors.

Kao Group in Japan

Compliance with amended Waste Management and Public Cleansing Act

To ensure appropriate waste disposal, strengthen upkeep of waste treatment facilities, limit the release of waste into the environment and promote reuse and recycling, the Waste Management and Public Cleansing Act was amended in May 2010, and the amended law was enacted in April 2011. In line with the amended law and to appropriately manage and dispose of waste, Kao carried out briefings at 10 offices for a total of 84 persons involved in waste management to deepen their understanding of the amendments to the law. In addition, with respect to the addition under the amendments of upkeep plans for waste treatment facilities and disclosure of upkeep status, we began disclosing the status on our website, beginning in April 2011, of applicable incinerator facilities and final disposal sites at seven waste treatment facilities located at five plants.

For information on upkeep of industrial waste treatment facilities

http://www.kao.com/jp/corp_csr/eco_activities_02_12.html

Water and Soil Protection Measures

Kao is implementing a wide range of environmental protection activities, including efficient use of water resources and measures to prevent soil contamination.

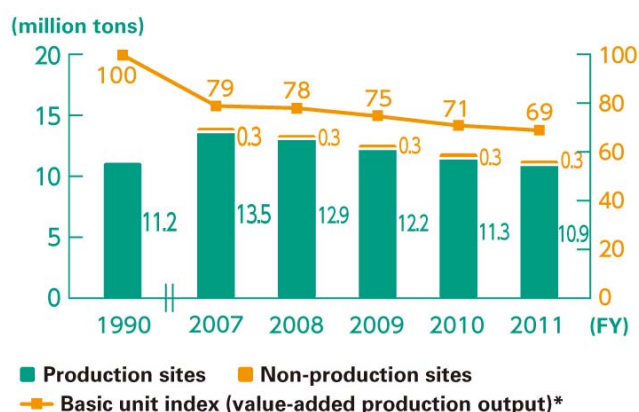
Kao Group in Japan

Effective utilization of water resources and wastewater control

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.

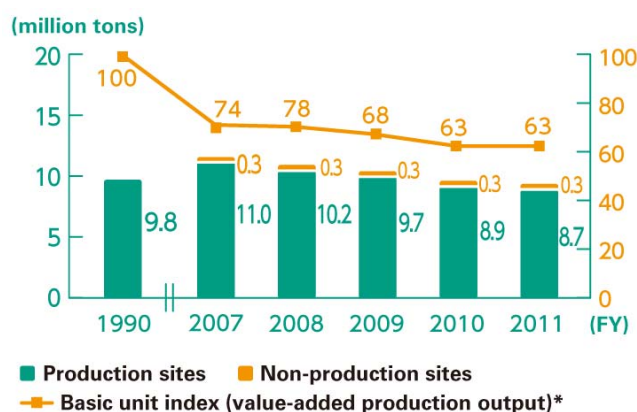
The amount of water consumption and the wastewater in fiscal 2011 decreased by 483,000 tons and 238,000 tons, respectively, compared with the previous year.

■ Changes in volume of water consumed



*For basic unit index (value-added production output) production site data is used for calculation to ensure data continuity from past years.

■ Changes in the volume of wastewater



*For basic unit index (value-added production output) production site data is used for calculation to ensure data continuity from past years.

Kao Group in Japan

Compliance with wastewater and exhaust gas standards

In accordance with applicable laws and agreements with local governments, Kao monitors the levels of contaminants and pollutants in wastewater and exhaust gas at each of its plants.

In fiscal 2011, there were no instances of such substances exceeding regulatory wastewater and exhaust gas standards.

Kao Group in Japan

Investigation and measurement of groundwater and soil contamination

In light of its history of use of chemical substances, Kao measures the levels of substances regulated by environmental standards in groundwater within the premises of each plant every year. In fiscal 2010, voluntary investigations were conducted at the Wakayama, Sakata and Tochigi plants, and it was confirmed that levels of all substances were below their regulatory limit values across all the test items. At our Kawasaki Plant, we assessed the impact of our business activities on soil quality in accordance with the Soil Contamination Countermeasures Act and other ordinances, and it was confirmed that levels of all substances checked were below their regulatory limit values.

Kao Group in Japan

Environmental impact of discharged wastewater after product use

Organic substances contained in domestic wastewater are decomposed either at wastewater treatment facilities or by microorganisms in rivers, before being returned to the natural system of rivers, lakes, oceans, etc. Given this, Kao has defined its basic policy for environmentally-conscious design as “promoting the lowering of environmental impacts throughout the entire lifecycle of products.” Based on this policy, we endeavor to use raw materials that are easily biodegraded by microorganisms and have less impact on the ecological system.

At the same time, Kao pays attention to identifying actual impacts of products after consumers' use on the natural environment, such as rivers. Kao is also taking part in environmental monitoring surveys on surfactants conducted by the Environmental Safety Technical Subcommittee of the Japan Soap and Detergent Association (JSDA). Specifically, we measure concentrations of the four surfactants, such as LAS contained in products, in four major rivers flowing in urban areas four times a year. We then assess the environmental risks of the surfactants on the ecological system. The results of the surveys have revealed that the risks these surfactants pose to aquatic organisms are not high.*

*According to the Fiscal 2011 Environmental Year Book Vol. 36, JSDA

Measures for Biodiversity

At Kao, we realize that our lifestyles and business benefit from the gifts of biodiversity, and we strive to conserve biodiversity in our business activities and activities to serve society.

Policies/structures

We realize that Kao's business depends on the gifts of biodiversity throughout the product life cycle, including using palm oil and coconut oil as its major materials, while, at the same time, having impacts on it. To continue to benefit from biodiversity, it is important for us to conserve it and ensure that we make use of its benefits in a sustainable manner.

In April 2011, Kao announced its Basic Policies on Conservation of Biodiversity, setting forth the efforts Kao regards as necessary for the conservation of biodiversity. The policies were formulated after extensive internal discussion, with input from external specialists. Based on these basic policies, Kao will make efforts to conserve biodiversity through its business activities, including sustainable raw materials procurement and the development of technology to reduce the impact on ecosystems, and will engage in collaborative efforts with society.

Kao Basic Policies on Conservation of Biodiversity:

http://www.kao.com/jp/en/corp_csr/eco_activities_03_04.html

Kao Group in Japan

Efforts toward 100% use of sustainable palm oil and palm kernel oil to mitigate tropical forest damage

In 2007, Kao joined the non-profit international Roundtable on Sustainable Palm Oil (RSPO), established to address challenges relating to palm oil production, including ecosystem destruction through the logging of tropical rain forest and poor plantation labor conditions. Subject to sufficiency of supply, Kao plans to meet all of the Kao Group's needs with certified palm and palm kernel oils by 2015.

In September 2010 we began purchasing certified palm oil under the Book and Claim system,^{*1} one of the systems certified by RSPO. In fiscal 2011, 100% of the palm oil we procured for domestic production was certified. Moreover, in March 2012, our Kashima Plant successfully passed an RSPO audit and received SCCS certification^{*2} for its production and shipment of products using certified palm oil.

We are also moving forward with preparations relating to palm kernel oil, which is used in greater volume than palm oil. By weight, palm kernels yield only a tenth as much oil as palm fruit. Consequently, palm kernel oil certification requires



Harvesting oil palm fruit bunches



RSPO SCCS certificate

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that traceability be established for a larger number of plantations, making certified oil difficult to obtain. However, we are making preparations for procurement subject to stability of supply and method of certification.

*1. 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 encourages plantations to produce certified oil.

*2. SCCS (Supply Chain Certification System) certification

A system for certifying that a supply chain system meets facility, operations, and management requirements to enable verification that its products have been manufactured exclusively with RSPO-certified sustainable palm oil.

Kao Group in Japan

Promoting collaboration with other companies

Kao is a founding member of the Japan Business Initiative for Biodiversity (JBIB).^{*} JBIB formulates guidelines to facilitate enterprise activities in support of biodiversity conservation, and is promoting research on evaluation tools. Kao participates in multiple JBIB internal working groups.

*Japan Business Initiative for Biodiversity

An organization of numerous enterprises from many different industries, committed to biodiversity conservation and founded in 2008.

Kao Group in Japan

E-learning for Kao Group employees in Japan

Kao has launched an e-learning program to encourage sharing among all domestic Kao Group employees of information on Kao's stance toward biodiversity conservation as well as the Basic Policies on Conservation of Biodiversity.

In departments that are deeply involved with biodiversity, employee awareness is already very high, and these departments are extremely active in activities to support biodiversity conservation. However, this e-learning program has helped all employees realize and understand that biodiversity is an issue that calls for efforts from everyone in the Kao Group.

To promote biodiversity conservation, it is extremely important for each of us to raise our awareness of this issue. A survey conducted after the completion of the e-learning program indicated that many participants were eager to work toward this goal not only in their work, but were even more eager to do what was immediately possible for them personally. We are confident that these aspirations on the part of each individual employee and their actual activities will create a firm foundation for promotion of biodiversity conservation throughout the Kao Group's businesses.

Kao Group in Japan

Kao Creating Forests for Everyone program

For 10 years beginning in fiscal 2000, we conducted the Kao Creating Forests for Everyone program, aimed at maintaining green environments in our surroundings for future generations. This program was administered

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jointly by Kao and the Urban Green Space Development Foundation in support of NPOs and citizens' organizations engaged in the protection and expansion of local green areas.

In fiscal 2011, we reevaluated and relaunched the program in response to changes in the social environment. Support for existing "planting of forests" activities was extended from the former year-to-year basis to a three-year term, to enable citizens' organizations to conduct their efforts from a longer-term perspective. We also inaugurated a new support category, also on a three-year basis, for "environmental education" activities by citizen's groups aimed at creating opportunities for children to come into contact with local green environments.

As of March 2012, support was being provided to 23 organizations, including 11 organizations engaged in planting of forests and 12 organizations active in environmental education.

List of Kao-supported organizations

http://www.kao.com/jp/corp_csr/social_activities_00_13.html



Supported organizations engage in greening activities

Kao Group in Japan

Enterprise Forest Project participation

Kao participates in Wakayama Prefecture's Enterprise Forest Project, which works with owners (local governments and individuals) in the prefecture to make forest resources available at no charge for various environmental activities. In fiscal 2007, Kao was granted access to a 0.7-hectare forest in Kimino Town, Kaiso District, and concluded an agreement to work on forestry preservation activities with Wakayama Prefecture and Kimino Town.

The wild cherry trees planted in 2007 had grown and bloomed in the spring. In May 2011, 122 Kao employees and family members participated in forest preservation activities, including work to eliminate weeds and clear undergrowth.



Participating in forest preservation efforts by eliminating weeds and undergrowth

Environmental Communication

Our ecology-centered management incorporates stakeholder opinions gathered by utilizing a variety of measures and opportunities.

Policies/structures

Kao has set short-, medium- and long-term targets for environmental communication, placing utmost focus on on-going interactive communication with stakeholders while running the RPDCA* cycle. Our short-term target is to gain stakeholder understanding of our “eco together” environmental statement, and to meet this target, we are engaged in a wide range of activities targeted at enhancing communications with children and customers, as well as, educating our employees. We regularly measure awareness and level of understanding of “eco together,” and incorporate the results in our environmental communication activities. As a medium- and long-term target, Kao aims to earn a global reputation as an excellent company with respect to the environment.

*RPDCA

A management technique that adds R (research) to the widely-used P (plan) D (do) C (check) A (act) cycle

Global

Environmental and Safety Reports issued by plants and affiliated companies

Since fiscal 2005, Kao has issued Environmental and Safety reports for affiliated companies and plants as a communication tool for delivering a wide range of information to our stakeholders regarding our corporate environmental conservation and safety activities. We sincerely hope to gain feedback and insight from our key stakeholders providing direction to future activities.

In fiscal 2011, the Kao Group's six plants in Japan produced Environmental and Safety Site Reports, which were distributed to local residents and plant tour participants. Kanebo Cosmetics also began publishing a report on its environmental activities from 2008, which is available on its website.

Overseas, Kao Chemicals Europe issued their CSR report in 2008, and Kao (Shanghai) issued Environmental Report in the same year. In 2011, Kao Specialties Americas issued their first CSR Report, and Kao Corporation Shanghai expanded the scope of their environmental report adding social responsibility-related content. The report was issued as the Kao (China) Social Responsibility Report.

Kao Specialties Americas CSR Report

<http://chemical.kao.com/us/business/responsiblecare.html>



Kao Specialties Americas
CSR Report



Kao (China) Social
Responsibility Report

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Kao (China) Social Responsibility Report

http://www.kao.com/cn/corp_csr/csr_reports.html

Kanebo Cosmetics Environmental Report

<http://www.kanebo-cosmetics.co.jp/environment/>

Kao Group in Japan

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

In recent years, social safety has gained increased attention, and communication between enterprises and local communities have taken on increased importance. Every year, the Sumida Complex hosts a meeting at which issues relating to the environment, safety and disaster prevention are discussed. This meeting provides local residents with an opportunity to become better acquainted with the complex's activities for environmental conservation, safety and disaster prevention, and serves as a forum for the exchange of opinions. The meeting held in March 2012 was attended by 20 representatives of seven nearby neighborhood associations.



Sumida Complex exchange meeting

Kao's Kawasaki Plant also participated in the Responsible Care Kawasaki Regional Symposium held December 3, 2011 (with 145 attendees, including 53 from neighborhood associations and citizens' organizations, 10 from government, and one student), introducing its process safety and disaster prevention activities. In addition to existing activities, the presentation gave detailed explanations concerning new activities based on the lessons of the Great East Japan Earthquake, including a disaster prevention communications system, coastal reinforcement and facilities reinforcement.

Kao Group in Japan

Kao Eco-Lab Museum opens its doors to the general public

On July 4, 2011, the Kao Eco-Lab Museum opened its doors to the general public. The museum is located on the first floor of the Eco-Technology Research Center (ETRC) within the Wakayama Plant and was completed in June 2011. In addition to conveying to visitors the current state of the environment, the museum showcases Kao's environmentally-conscious product development and eco-technology through information on its wide-ranging efforts throughout the product lifecycle, from raw materials procurement to waste disposal. The museum is also preparing Eco-Housework Laboratory program that will enable visitors to enjoy housework mechanisms while learning through scientific experiments.



Museum visitors listen attentively to an explanation

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Since the museum opened its doors, a wide range of visitors of all ages from the general public, educational institutions, enterprise, government, and numerous organizations have come to see the exhibits and experience “eco together.”

In addition, the first Kao “eco together” Forum was held at ETRC in November 2011. The topic of the forum was “Creating the Future and Lifestyles with Eco-innovation,” with participation from environmental researchers in industry, government, and academia as well as others involved in activities relating to the environment. A second forum is planned for the fall of 2012.

Kao Group in Japan

Environmental education programs at schools and plants

As part of our Nurturing the Next Generation activities, we have been conducting several educational support programs, plant tours, and have provided instructional materials that promote “eco together.” In fiscal 2011, educational support programs for elementary, middle, and high school students were held at 27 schools in 13 of Japan’s prefectures. Kao distributed to approximately 100 schools “eco together diaries” used in lessons aimed at fourth-grade elementary school students. We are working to promote environmental education programs in a variety of extracurricular activities, such as, special summer vacation environmental lectures, plant tours at our Kawasaki Plant, as well as, Kao Eco-Lab Museum tours and lectures for children at our Wakayama Plant.



Primary school environmental lesson

Our educational support programs and plant tours are designed to convey the importance of protecting the environment throughout the entire product lifecycle. Using our ultra-concentrated liquid laundry detergent, *Attack Neo*, we demonstrate how this product designed to require just a single rinse cycle thus conserving water. Moreover, this conveys Kao’s commitment to developing and manufacturing eco-conscious products. One child participant wrote, “I learned that if we gradually pay more attention to the environment, even small efforts can add up to a big effect. I want to make gradual efforts, starting with things in my daily life. I also want to be careful, for a better future.” Kao will continue its efforts toward eco-education at schools and at its plants.

Kao Group in Japan

Nationwide Environmental Fair Campaign

As part of its environmental contributions, Kao Customer Marketing Co., Ltd. (CMK) is working on the Environmental Fair Campaign in cooperation with retailers to offer information at the point of sale on how to reduce environmental impact and about Kao’s eco-friendly products. The campaign is held on a nationwide scale in coordination with “Environment Month” activities by local governments. Approximately 17,000 retailers participated in fiscal 2011, and this number is increasing with each campaign.



Environmental fair at a retailer

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Kao Group in Japan

Eco-Products 2011

Kao participated in the Eco-Products 2011 Exhibition held at the Tokyo International Exhibition Center (Tokyo Big Sight) for three days from December 15 to 17, 2011. The venue was crowded with visitors every day, with more than 10,000 people stopping by Kao's exhibit booth.

For this year's exhibition, Kao presented information on its efforts to reduce environmental impact throughout the entire product lifecycle. Visitors to the booth were provided with tools to help them discover ways to put eco-awareness into practice in their daily lives with little effort.

The booth featured a stage where visitors could enjoy hands-on displays, participative mini-lectures conveying the "eco together" concept. Lectures included "science lessons in high cleaning performance" using Kao's ultra-concentrated liquid laundry detergent, *Attack Neo*, as well as demonstrations of "eco-shampoo technique" for water saving using *Merit Shampoo*.

The booth also featured a corner with information panels introducing Kao's wide range of "eco together" activities coordinated with society's overall environmental activities, including explanations of the Kao Creating Forests for Everyone program, efforts to reduce industrial CO₂ emissions, and modified polylactide resin, which will contribute to the expansion of the bioplastics market.



The Kao booth is thronged with visitors

Global

Second Kao International Environment Painting Contest for Children

Kao organized the Second Kao International Environment Painting Contest for Children under the theme "eco together." Kao invited entries from children around the world aged 6 to 15, and received 4,102 entries (1,967 from Japan and 2,135 from overseas).

During the Eco-Products 2011 Exhibition, winners of the contest were invited to the awards ceremony at the Kao booth where they shared their thoughts about the environment and the message they were illustrating in their entries.

To enable as many people as possible to see these works, they were displayed at Kao production sites, environmental events in Japan and overseas, and elsewhere.

"eco together" - Planet Earth Grand Prix Sudaporn Wiangin (Thailand): her winning work and wishes

"I painted a scene of deforestation that has brought drought and loss of richness of nature. The ground is cracked, and trees and living creatures are dying off. I hope to become a bird and plant a small seedling."



Painting by Sudaporn Wiangin

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Competition judge Ms. Okubo (right) with painting contest winners from (right to left) Japan, India, Thailand (2 winners) and Kenya. Kao Chairman Ozaki is at left.

Winning works for the Second Kao International Environment Painting Contest for Children

http://www.kao.com/jp/en/corp_news/2011/20111129_001.html

Environmental Accounting

To efficiently and effectively promote its environmental activities, Kao quantifies the costs and results of those activities in numerical terms.

Kao Group in Japan

Fiscal 2011 environmental accounting report

1. The aggregation methods for fiscal 2011 comply with the Japanese Ministry of the Environment's Environmental Accounting Guidelines 2005. Kao also refers to the Environmental Accounting Guidelines for Chemical Companies (November 2003) issued by the Japan Chemical Industry Association.
2. The companies within the scope of accounting are Kao Corporation and its domestic subsidiaries.*
3. The period of accounting is from April 1, 2011 to March 31, 2012.

*Kao-Quaker Co., Ltd., Kao Customer Marketing Co., Ltd., Ehime Sanitary Products Co., Ltd., Kanebo Cosmetics Inc. (including its five subsidiaries), Kao Professional Services Co., Ltd., Goldwell Japan Co., Ltd., Molton Brown Japan Ltd., Niko Seishi Co., Ltd., Kao Business Associe Co., Ltd., Kao Logistics Co., Ltd., KC Logistics Inc., Kao System Logistics Co., Ltd., Kao Field Marketing Co., Ltd., Kao Creative House Corporation, Shohi Seikatsu Kenkyusho, Inc., Kao Peony Co., Ltd., Healthcare Committee Inc.

■ Environmental conservation costs (categories corresponding to business activities) (Unit: million yen)

Categories		Key activity and outcome	Investment	Cost** ¹
(1) Business area costs			1,077	3,920
Breakdown	1) Pollution prevention cost	Air and water pollution prevention	275	1,610
	2) Global environmental conservation	Energy conservation	265	292
	3) Resource circulation cost	Resource savings, waste treatment and disposal	537	2,018
(2) Upstream/downstream cost		Plant and equipment for eco-conscious products, containers and packaging recycling	855	2,813
(3) Administration cost		Acquisition and maintenance of ISO certification, environmental publicity, tree planting within work sites	8	1,284
(4) R&D costs		Eco-conscious R&D	3,386	3,727
(5) Social activity cost		Natural environmental conservation and tree planting activities outside work sites, donations	0	69
(6) Environmental remediation cost			0	0
Total			5,326	11,813

*1. Expense amounts include depreciation costs.

■ Environmental conservation benefits (physical quantity benefits)

Categories	Environmental performance indicators (units)	FY2010	FY2011	Change* ²
Related to resource input into business activities	Energy consumption, production activities (crude oil equivalent, 1,000 kl)* ²	238	231	-7
	Water consumed (million tons)	11.6	11.1	-5
Related to waste or environmental impact originating from business activities	Greenhouse gas emissions (CO ₂ equivalent: 1000 tons)* ^{2, *3}	426	424	-2
	SOx emissions (tons)	27	43	16
	NOx emissions (tons)* ²	358	350	-8
	Wastewater amount (million tons)* ²	9.2	9.0	-0.2
	COD emissions (tons)	64	58	-6
	Waste discharged (1,000 tons)	54	58	4
	Final landfill disposal amount of waste (1,000 tons)	0.2	0.2	-0.02
	Emissions of chemical substances subject to PRTR Law to the atmosphere (tons)* ²	2	1	-1

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*2. Reviewed/revised figures.

*3. Greenhouse gas emissions (CO₂ equivalent) are calculated based on the Calculation and Reporting Manual on Greenhouse Gas Emissions (Ver. 3.2) of April 2011 published by the Ministry of the Environment and the Ministry of Economy, Trade and Industry.

■ Economic benefits associated with environmental conservation activities

(Unit: million yen)

Details of benefits		Amount ^{*3}
Revenue from sales of valuable residues	Sales value of valuable resources and fixed assets	178
Cost reduction	Reduction in costs through energy conservation	317
	Reductions in cost through resource saving	1,642
	Reduction in operation costs (maintenance costs, etc., of eco-conscious equipment)	305
Total		2,442

*3. The amount of cost reduction represents annual reductions for items generated during the year.

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

■ Environmental conservation costs

(categories corresponding to areas of application of environmental conservation measures)

(Unit: million yen)

Categories	Key activity and outcome	Investment	Cost
1) Cost related to global warming measures	Energy conservation	265	286
2) Cost related to ozone layer protection measures	Switch to alternative CFCs	57	43
3) Cost related to air quality conservation measures	Prevention of air pollution, prevention of dust pollution, malodor prevention	6	398
4) Cost related to noise and vibration measures	Noise prevention	0	6
5) Cost related to environmental conservation measures for the aquatic, ground, and geologic environments	Prevention of water pollution	211	1,161
6) Waste and recycling measures	Resource savings, industrial waste volume reduction, recycling	1,393	4,821
7) Cost related to measures to reduce chemical risk and emissions	R&D on products and production	3,386	3,734
8) Cost related to natural environmental conservation	Natural environmental conservation and tree planting activities outside plants, donations	0	68
9) Other costs	Acquisition and maintenance of ISO certification, environmental publicity, tree planting activities within plant premises	8	1,296
Total		5,326	11,813

■ Trends chart for summary environmental accounting data for the three most recent periods

	FY2009	FY2010	FY2011
1) Environmental conservation cost			
Investment (million yen) ^{*2}	4,114	9,936	5,326
Cost (million yen) ^{*2}	10,483	10,362	11,813
2) Environmental performance indicators concerning environmental conservation benefit			
Energy consumption (crude oil equivalent, 1,000 kl) ^{*2}	246	238	231
Water consumed (million tons)	12.4	11.6	11.1
Greenhouse gas emissions (CO ₂ equivalent: 1,000 tons) ^{*2}	447	426	424
SOx emissions (tons)	30	27	43
NOx emissions (tons) ^{*2}	364	358	350
Wastewater amount (million tons) ^{*2}	10.0	9.2	9.0
COD emissions (tons)	66	64	58
Waste discharged (1,000 tons)	56	54	58
Final landfill disposal amount of waste (1,000 tons)	0.3	0.2	0.2
Emissions of chemical substances subject to PRTR Law to the air (tons) ^{*2}	2	2	1
3) Economic benefit associated with environmental conservation activities			
Actual benefit (million yen) ^{*2}	2,280	2,437	2,442

*2. Reviewed/revised figures.

Partnering with Employees

Human Capital Development



Kao strives to create an environment and corporate culture in which both individuals and the company achieve growth, so that each employee's abilities are mobilized to generate greater strength than the sum of their parts.

Promoting Diversity and Respecting Human Rights



While eliminating all forms of discrimination and ensuring respect for employees, Kao endeavors to create workplaces in which individual employees can demonstrate their maximum potential.

Promoting Dialogue with Employees



Kao firmly recognizes good employee relations as one of the company's most important assets. In addition to creating various communication opportunities, we conduct an employee opinion survey every two years in principle.

Work-Life Balance



Kao strives to create workplace environments that are conducive to work and facilitate a harmonious balance between work and lifestyle.

Consideration for Employee Health and Lifestyle



Based on the Kao Group Health Declaration, Kao is actively promoting measures to support health aiming to realize KAO Health 2015.

Occupational Safety, Process Safety and Disaster Prevention



Kao conducts activities to ensure occupational safety and disaster prevention based on Basic Policies for Responsible Care (RC) Activities in order to protect employees from accidents and disasters in the course of conducting business activities.

Human Capital Development

Kao strives to create an environment and corporate culture in which both individuals and the company achieve growth, so that each employee's abilities are mobilized to generate greater strength than the sum of their parts.

Policies/structures

The efforts of each and every employee to pursue individual achievements by exercising his or her own abilities and characteristics to the utmost can contribute to the success of the employer. Based on this concept, Kao aims to create such an environment and corporate culture. To this end, Kao has defined this policy as the Basic Principles of Human Capital Development and has made clear what construes an "Ideal Organization" and "Ideal Human Capital." With the objective of achieving this policy, we provide various opportunities and support for employees to develop their skills and capabilities in accordance with their own level of motivation, individual characteristics and organizational goals.

In fiscal 2011, Kao conducted trainings for managers of each Kao Group company in Japan to promote understanding and practice of the Basic Principles of Human Capital Development. In fiscal 2012, we plan to conduct these trainings at overseas companies of the Kao Group.

Basic Principles of Human Capital Development

Continuously improve overall efficiency based on creative and innovative activities aimed at the sustainable growth of the Kao Group through *Yoki-Monozukuri*.
(Pursuit of efficiency)

Provide a work environment where each individual's dignity is respected, and which makes full use of employees' autonomy and diversity, since the enthusiasm of all employees to display their boundless wisdom is the wellspring of creation and innovation.
(Respect human dignity)

Integrate organizational efforts and individual efforts through creative and innovative activities so as to achieve evolution for all. Make efforts to improve policies in order to offer all individuals freedom to display wisdom, and to enable combined individual efforts to lead the Kao Group to further prosperity.
(Efforts for integration)

Vision of Human Capital Development

Ideal Organization

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

Ideal Human Capital

1. People with consistent challenging spirits
Challenge & Change
2. People with high expertise
Professional Capabilities
3. People with a global perspective
Global Perspective
4. People with the team spirit to achieve superior performance
Communication & Collaboration
5. People with strong ethics
Integrity

Global

Holding the Global Human Capital Development Conference

Kao aims to become a company that can attract human resources who pursue global careers around the world, and all Kao Group companies make concerted efforts so that excellent human resources regardless of nationality, race, gender, etc. can play an active role.

To promote cross-border and cross-company human capital development, we hold the Global Human Capital Development Conference and discuss the direction of human resource management, the standardization of operations relating to personnel affairs, and the nature of cooperation and collaboration toward the realization of these goals. In fiscal 2011, we held the conference in July with the participation of 38 people from 15 companies in 10 countries in Europe, the United States, and Asia.

Global

Implementation of various common global training programs

In April 2010, we launched a global training and development system called “Creativity Camp of Kao.” To promote global harmonization, training programs are unified at home and abroad, and human resources who share values, goals and ways of doing business are fostered. In addition, we plan the training program mainly focusing on the achievement of business strategies and practice of the Kao Way and implement it in cooperation with each company in the Kao Group.

Continuing from the previous year, in fiscal 2011 we successively implemented common global programs in various countries of Asia including Japan, Europe and the United States. These programs include Global Leadership Development,^{*1} Management, Global Communication, English Skills,^{*2} Facilitation, Integrity, and New Employee Orientation. We have also put new focus on developing internal instructors in each country.



GLDP graduation ceremony

^{*1} Global Leadership Development Program (GLDP)

Kao's first global program common to all Group companies, in which members selected from individual Kao Group companies in Japan and overseas study Kao's challenges from a broader perspective and make proposals to top management. The GLDP began in fiscal 2010 and had 70 participants in fiscal 2011. A total of 140 people have finished the program.

^{*2} English Skills

This program began in July 2010 with the goal of improving basic English skills. In fiscal 2011, we are conducting a yearlong e-learning program beginning August 2011 and ending July 2012 in the eight countries of Japan, China, Thailand, Indonesia, Vietnam, Mexico, Germany, and Spain where English-language needs are high. A total of 346 employees are participating in the program.

Global

Global rollout of management training

We are rolling out the Managing Human Performance Program (MHPP) in each country to strengthen management capabilities that bring together the *Genba*. In the program, managers from all countries learn about the Basic Principles of Human Capital Development and the basics of performance management founded on the Kao Way. We have trained 10 internal instructors in Asia and Europe to conduct the MHPP with integrated administration and in cooperation with Kao headquarters. Trainings have already been conducted in seven countries in Asia including Japan, and in 2011, the program also commenced at Kao Group companies in China and Japan. We will continue to develop our internal instructors while further extending the program to Europe and the United States.



Internal instructors from Asia and Europe at training in China

Global

Launching global rollout of facilitation training

We have launched a global rollout of facilitation training for managers to acquire meeting management techniques of a global standard. After a pilot program was conducted in Japan and other Asian countries, six internal instructors trained in Asia conducted facilitation training in four Asian countries in fiscal 2011. We will continue to develop our internal instructors while further extending the program to Japan, Europe and the United States.



Facilitation Training participants in Indonesia

Global

Practice of the Kao Way and sharing examples among all Kao Group companies

To help promote practice of the Kao Way in daily operations, Kao has held the Kao Way Workshop since 2005. This workshop provides employees with opportunities to discuss the links between their daily tasks and the Kao Way. In fiscal 2011, workshops were conducted in the divisions and affiliates shown in the panel on the right.

In addition, the Kao Way Recognition Program, which aims to share and commend practical examples of how the Kao Way is put into practice,

Implementation status of the Kao Way Workshop (Fiscal 2011)

Domestic

- Processing Development Research Laboratories
- Accounting and Finance Division
- Personal Health Care Products Research Laboratories
- Skin Beauty Research Laboratories
- Legal and Compliance Division
- Safety Science Research Laboratories

Affiliates

- Kanebo Cosmetics
- Nivea Kao

has been implemented under the leadership of individual workplaces. The Kao Way Newsletter picks up major examples cited in the Recognition Program to share among Kao Group companies globally.

Global

Fair and transparent evaluation and compensation

Kao clearly states the roles and responsibilities of its employees and endeavors to 1) fairly evaluate their performance, and 2) appropriately reflect achievements in rewards and compensation.

To achieve fair and transparent evaluations, Kao determines evaluations through a multi-step, multi-dimensional process that encompasses setting specific targets based on clear criteria and communication through performance review interviews between employees and superiors.

In addition, as a part of our compensation policies, we provide a higher level of compensation for employees who are striving to achieve higher goals and have performed exceptionally.

In order to further enhance coordination and cooperation in the Global Business Harmonization project, in 2011 we established key performance indicators (KPI)* for individual projects. As common targets for members participating in projects both inside Japan and abroad, these KPI are incorporated in individual performance targets. Performance evaluations using these KPI were conducted outside of Japan in January 2012 and in Japan in April 2012.

Accompanying the use of globally integrated evaluations from January 2012, we have established a management line connecting Japan and Americas and EMEA. In conjunction with this, organizational targets for the Japan headquarters were set as KPI, and each region's KPI was further broken down into the individual targets for the respective regional head. By doing this, we aim to further reinforce a relationship between Kao headquarters and regions.

*Key performance indicators (KPI)

Indicators that are key to assessing performance

Promoting Diversity and Respecting Human Rights

While eliminating all forms of discrimination and ensuring respect for employees, Kao endeavors to create workplaces in which individual employees can demonstrate their maximum potential.

Policies/structures

Based on the recognition that the vitality generated from diversity supports business development, we aim to realize an organization in which each individual's diverse skills, personality, and values are accepted and mobilized to enhance the company's collective strength.

Kao Group in Japan

Implementing activities toward the achievement of a workplace that utilizes diversity

Aiming to boost diversity, Kao provides special lectures for newly appointed managers and other employees. In fiscal 2011, we held a total of 11 lectures for 242 participants.

In addition, we held meetings in May and November 2011 through the EPS^{*1} Promotion Network, whose members include HR staff at regional sites and Kao Group companies, to share and discuss educational plans. Staff involved in developing educational plans held meetings in July 2011 and February 2012, where they shared details of activities held in each region and deepened their knowledge of priority initiatives in order to further advance initiatives at each workplace and Kao Group company.

In addition, we have prepared a self-check sheet by summarizing relevant laws and regulations with respect to diversity and classifying them into 67 items in 10 groups. We use this sheet to check the level of respect for diversity each year. We do this not only to observe laws and regulations, but also to strive to achieve recommended targets.



EPS promotion meeting

^{*1} Equal Partnership (EPS) promotion activities

Since 2000, Kao Group companies in Japan have been engaged in EPS promotion activities with the aim of achieving an open, cheerful and diverse workplace where discrimination is not tolerated and where employees are motivated and enjoy their work. The major themes of the activities include "respect for diversity" and "promotion of work-life balance."

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■ Employee data by region in the world (regular employees)

	FY2011	Percentage
Japan	23,002	67.2%
Asia (excluding Japan)	7,491	21.9%
The Americas	1,276	3.7%
Europe	2,449	7.2%
Total	34,218	100%

● Percentage of female employees: 58.4%

● Percentage of female managers: 23.2%

■ Employee data (Japan)

		FY2008	FY2009	FY2010	FY2011
Regular employees* ²	Female	12,086	13,885	13,562	14,002
	Male	9,881	9,887	9,797	9,000
Contract employees* ²	Female	3,569	2,483	2,020	1,696
	Male	162	183	199	206
Percentage of female employees	Kao Group in Japan as a whole* ²	55.0%	58.4%	58.1%	63.0%
Percentage of female managers (regular employees only)	Kao Group in Japan as a whole* ²	5.5%	6.7%	7.6%	9.6%
Employment rate of people with disabilities (As of June 1)	Kao Group in Japan as a whole* ³	1.90%	1.93%	1.99%	2.03%
	Kao Corporation (non-consolidated)	1.93%	1.91%	1.93%	1.96%

*² Calculation based on inclusion of Kao Corporation, Kao Customer Marketing Co., Ltd., Kao Field Marketing Co., Ltd., Kao Professional Services Co., Ltd., Ehime Sanitary Products Co., Ltd., Kao-Quaker Co., Ltd., Kao Business Associe Co., Ltd., Kanebo Cosmetics Inc., Kanebo Cosmetics Sales Inc., Joset, Ltd., Prive Inc., Kanebo Cosmillion, Ltd., Lissage, Ltd., and e'quipe, Ltd.

*³ Calculation based on inclusion of nine domestic affiliates that are required to employ people with disabilities (Kao Corporation, Kao Customer Marketing Co., Ltd., Kao Field Marketing Co., Ltd., Kao Professional Services Co., Ltd., Ehime Sanitary Products Co., Ltd., Kao Logistics Co., Ltd., Kao Business Associe Co., Ltd., Kanebo Cosmetics Inc., and Kanebo Cosmetics Sales Inc.) and Kao Peony Co., Ltd.

Policies/structures

Kao's Basic Policy for Employment of People with Disabilities

Striving for a society where people with and without disabilities work and live together,
Kao creates workplace environments for employees with disabilities that are conducive to work and offer reward.

Kao Group in Japan

Promoting the employment of people with disabilities and creating workplace environments to demonstrate their skills

Viewing disabilities as an individual characteristic of people, Kao actively promotes the employment of people

Kao Sustainability Report 2012

who are motivated and talented and hiring of people at our ordinary workplaces and a special subsidiary according to their disability and aspirations. In fiscal 2011, we revised our basic policy for employment of people with disabilities and clearly defined our stance on creating environments in which employees with disabilities are able to perform their work with greater reward.

In order to deepen all employees' understanding of hiring people with disabilities, Kao has designated September as the month to promote understanding of employment of people with disabilities. In addition to distributing a newsletter on the company intranet system, we also conduct tours of special subsidiary Kao Peony Co., Ltd. In October, we held the Kao Group "Challenged" Meeting for employees with disabilities. Ten employees with hearing disabilities who work in the Tokyo metropolitan area attended the meeting, where they discussed problems they face and ways they overcome their disability as well as shared work methods and communication strategies with each other.

Kao Corporation will continue to make efforts to realize our basic policy.



Kao Group "Challenged" Meeting

Kao Group in Japan

Kao Peony Co., Ltd., a special subsidiary of Kao

This special subsidiary was established with the aim of promoting the employment of people with disabilities. As of April 2012, Kao Peony Co., Ltd., a subsidiary of Kao that began full-scale operations in April 2006, has a total workforce of 23 employees, 19 of whom have intellectual disabilities. Kao Peony employees package sets of cosmetics and personal care products. As products move along a conveyor belt, employees are responsible for processes that allow them to fully demonstrate their individual abilities and practice *Yoki-Monozukuri* based on enthusiasm, teamwork and cooperation.

Kao Group in Japan

Policy for re-employing retired employees

From the perspective of "ensuring a stable supply of workers" and "transferring skills and expertise from skilled and experienced employees," Kao Corporation introduced the Senior Partner policy in fiscal 2006 to re-employ retired managerial class employees with significant technical or business skills and experience as contract employees. The scope of retired employees covered by the policy was expanded in fiscal 2008 to include those with non-managerial responsibilities. We will endeavor to implement the policy in such a way as to create an environment that will allow motivated and skilled senior employees to continue to work for Kao with vigor and enthusiasm and to contribute to our business.

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

FY	Number of employees who reach the retirement age*	Number of retiring Employees who are re-employed	Percentage
2006	58	3	5.2%
2007	68	10	14.7%
2008	77	21	27.3%
2009	98	31	31.6%
2010	102	39	38.2%
2011	106	39	36.8%

*Number of employees who reach the retirement age = Number of retired employees + Number of retiring employees who are re-employed

Kao Group in Japan

Promoting creation of a workplace free from discrimination and harassment

As people become more aware of harassment in the workplace, Kao now provides training programs that deal with human rights and harassment. In fiscal 2011, we held Harassment Awareness Training for managers and supervisors at 12 Kao Group companies and workplaces, with a total of 655 participants. Compliance and harassment prevention programs also form a part of the intensive training employees receive when they are promoted to leadership positions as a way to raise awareness so that harassment problems do not occur at workplaces. In addition, December is designated as Harassment Prevention Month, and at this time internal guidelines as well as information on consultation services are distributed to all employees in a newsletter. The Compliance Committee also takes up prevention of harassment in compliance case studies that are posted on the company intranet system twice a month to deepen understanding of conduct that employees should be aware of in business settings.

Through these efforts, all employees share a common understanding that harassment is a socially unacceptable behavior.

Kao's efforts for the prevention of workplace bullying

- Publication of the company guidelines "Guidelines for Preventing Sexual Harassment" and "Guidelines for Preventing Workplace Bullying" on the company intranet system
- Making internal and external hotlines available to receive allegations related to harassment and workplace bullying

Promoting Dialogue with Employees

Promoting Dialogue with Employees

Kao firmly recognizes good employee relations as one of the company's most important assets. In addition to creating various communication opportunities, we conduct an employee opinion survey every two years in principle.

Policies/structures

Promoting understanding between senior management and employees

Kao strives to foster understanding between senior management and employees by facilitating various opportunities, both in Japan and overseas, for mutual talks, with the objective of developing unity throughout the Kao Group and enhancing employee motivation.

In Japan, we provide an opportunity to exchange opinions whereby the President & CEO explains the company's current situation and priority issues regarding personnel development and the like to employee representatives and also answers questions from employees. Since fiscal 2011, we have called this opportunity the "Kao Forum" and have expanded the range of participating companies to all Kao Group companies in Japan.

In addition, we hold meetings between employees and management and have formed Employee Welfare Committees in workplaces throughout Kao Group companies within Japan. In other countries, various opportunities for employee-management communications have been established, such as the Kao European Forum in Europe and the labor union in China.

Global

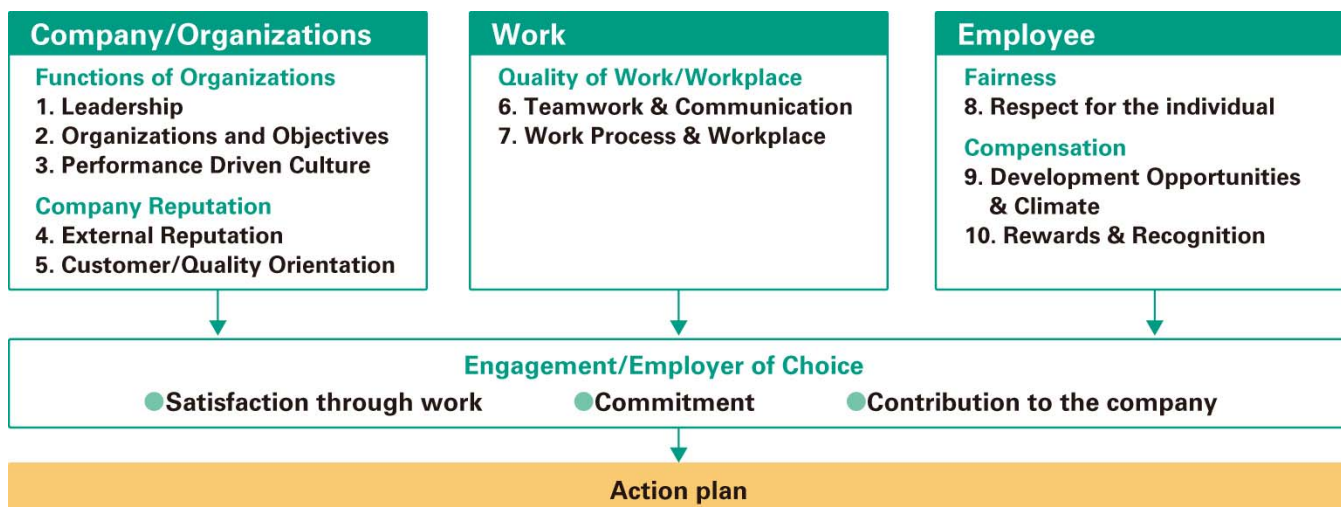
Improving work environments by conducting employee opinion survey "Find"

Kao conducts an employee opinion survey, known as "Find," in Japan and abroad every two years in principle with the aim of further enhancing Kao's organizational culture and functions and identifying issues that require solutions. Based on the results, individual divisions draw up their own action plans and promote the improvement of work environments and the creation of a supportive corporate culture by implementing these plans.

The survey will be carried out for the sixth time in 2012, in promotion of activities that enhance organizational functions from the global perspective. We are also implementing processes to further encourage employees to take more individual initiative in creating a better workplace.

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■ Questionnaire Items for “Find”



Work-Life Balance

Kao strives to create workplace environments that are conducive to work and facilitate a harmonious balance between work and lifestyle.

Policies/structures

In Japan, to promote good work-life balance, we have enriched systems to support child rearing and nursing care and have endeavored to raise awareness among employees and create a corporate culture that encourages the utilization of these systems. For overseas Kao Group companies, we have also promoted the creation of better working environments through the improvement of various support systems and other initiatives.

Kao Group 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’s Lunch” as a venue for participating working mothers to have the opportunity to share their concerns and engage in a round-table talk with a female executive who is also a mother. Mummy’s Lunches were held a total of six times in fiscal 2011.

We also encourage spouses to take part in seminars to help workers who have taken child-care leave return to work smoothly. A session for husbands is held to cultivate the attitude that child rearing is a cooperative effort between men and women.

The number of children on waiting lists for daycare centers in the Tokyo metropolitan area is a growing problem. In order to support the more rapid return to work of employees forced to stay at home due to the lack of available daycare, in September 2011 Kao established an internal daycare center called Merries Garden in Kayaba-cho, Tokyo.



Mummy’s Lunch held on November 14, 2011, in Tochigi Prefecture with a female executive who is also a mother



Seminar on returning to work after taking child-care leave, March 2012



Merries Garden

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Kao Group in Japan

Supporting male employees' efforts to participate in child care

Believing that child care is a cooperative effort between men and women, Kao supports male employees' active involvement in child rearing through a variety of educational activities. Educational pamphlets are distributed to employees who have just had a baby and their superiors to promote awareness of Kao's child-care support system and understanding in the workplace. In October 2011, child-care management seminars for fathers were held in four locations around Japan, where participants learn perspectives on how to enjoy both work and child rearing through lectures and group discussion. Kao strives to create environments conducive to both work and child rearing, for example by giving questionnaires every year to male employees who have just become a father and openly receiving employee feedback. The percentage of male employees at Kao Corporation taking child-care leave in fiscal 2011 was 40.5%.



Child-care management seminar for fathers held in Tochigi Prefecture on October 18, 2011

Kao Group in Japan

Child-care support system

Past results of use of the child-care support system are as follows.

■ Use of the child-care support system

		FY2008	FY2009	FY2010	FY2011
No. of employees who took child-care leave*	Female	421	469	534	576
	Male	89	93	76	89

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

Kao Group in Japan

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, we are gaining a detailed understanding of nursing-care circumstances through questionnaires and interviews with employees and developing a mid-term action plan and support mechanisms. Based on our established nursing-care support policy, we are holding nursing-care seminars and nursing-care consultations run by experts at our offices throughout Japan, endeavoring to support independent efforts and



Nursing-care seminar held at the Kawasaki Plant on November 8, 2011

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provide basic information.

In addition, we are making efforts to improve awareness of consultation services contracted with the mutual support organization Kao Family Association and improve our internal consultation capabilities mainly available through HR and labor affairs staff. By developing and enhancing these internal and external nursing-care consultation systems, we aim to create a mutually beneficial environment that allows employees to continue working even when confronted with both work and nursing-care demands.

Kao Group in Japan

Received Award for Excellence in the Japan Productivity Center's "Work-Life Balance Awards"

Kao's efforts connected to creating work-life balance have been recognized with an Award of Excellence in the fifth Work-Life Balance Awards. Our efforts to support nursing care and our male employees' high rate of taking child-care leave were highly evaluated in particular, and we intend to continue efforts that serve as a role model.



Work-Life Balance Awards ceremony

Kao Group in Japan

Promoting appropriate working hours

From the perspectives of employee health and work-life balance, Kao has introduced the Work Management System to manage the number of hours that employees spend at work, the duration of work, and their declared overtime hours.

Individual companies and divisions have made plans and endeavored to promote appropriate working hours and improve the rate at which paid holidays are used by reviewing the content of work.

We also collected slogans from employees and created posters using the best slogans from the entries submitted, which are now displayed at all offices. We are also examining efficient work methods aiming to innovate work styles. Starting in December 2010 at Kao Corporation headquarters, we have conducted activities such as encouraging use of a remote conference system and making information searches and communications more efficient through the use of an internal portal site by promotion leaders recommended from each division.



Educational poster promoting work-life balance

■ Rate at which paid holidays were used*

	FY2008	FY2009	FY2010	FY2011
Rate	57.0%	61.5%	61.0%	66.4%

*Kao Corporation (regular employees only)

Consideration for Employee Health and Lifestyle

Based on the Kao Group Health Declaration, Kao is actively promoting measures to support health aiming to realize KAO Health 2015.

Policies/structures

Kao Group Health Declaration

Five support measures

1. Measures to address lifestyle-related diseases
 - Provision of healthcare advice focused on preventing lifestyle-related diseases
 - Provision of support for employees' attempt to improve their lifestyles
 - Specific health guidance coordinated with the health insurance union
2. Measures to address mental-health issues
 - Establishment of a system to deal with employees with mental health problems early on through the introduction of a mental health check system
 - Implementation of training to deal with mental health issue for managers, and mental self-care training for regular employees
3. Measures to support employees wanting to quit smoking
 - Implementation of the "Kao Group No Smoking Marathon"
 - In fiscal 2011, a total of 57 employees participated in the program, and 17 employees succeeded in quitting smoking.
 - Survey on status of antismoking measures
 - Formulation of smoking cessation promotion plan

4. Measures to support employees affected by cancer
 - Addition of cancer detection categories to the annual physical check-up designated by the Industrial Safety and Health Act

5. Measures to support women's health
 - Spread of knowledge of women's health issues and to increase the rate of females receiving gynecological exams



Women's health seminar held in Kayaba-cho, Tokyo (March 1)

Kao Group in Japan

Release of Kao Group Health White Paper for Fiscal 2011

With the goal of promoting health consciousness among employees and helping more employees maintain their physical and mental health, Kao is implementing the mid-term plan "KAO Health 2015" that was formulated taking into consideration health check-up and interview data as well as health insurance claims. In 2008, we formulated the Kao Group Health Declaration, which states that we

Participation rate in fiscal 2011 annual health check-up

(Kao Corporation and domestic affiliates*1)

No. of employees who had a health check-up: 99.99%

Number of employees who received post-health-check follow-up advice*2: 99.70%

*1 Affiliates excluding Kao Logistics Co., Ltd., Kanebo Cosmetics Inc., and its 6 subsidiaries

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

actively support our employees' health in cooperation with the Kao Health Insurance Union, and have been making efforts to achieve this.

By visualizing employees' health through the issuance of the Kao Group Health White Paper for Fiscal 2011, Kao aims to rotate through the stages of its health promotion project's PDCA (Plan, Do, Check and Action) cycle. This year's White Paper (third issue) summarizes the KAO Health 2010 plan implemented through the previous year and selected Best Practices from each workplace and region. In addition, we compared the results of health check-ups with 23 health insurance unions of other companies and verified the standing of the current state of our employees' health, which will also prove useful in the examination of future policy.

Kao Group in Japan

Achieved the highest rank in the DBJ's Health Management Rating System

The Health Management Rating System of the Development Bank of Japan (DBJ) is the first financing system in the world that strives to increase the prevalence of health management that improves companies' productivity and profitability through employee health maintenance. The rating system evaluates and selects company initiatives using specialized health management evaluation techniques developed through research by the Ministry of Economy, Trade and Industry. Financing conditions are then established according to evaluations.

In March 2012, Kao became the first company evaluated following introduction of the rating system and was awarded the DBJ's Health Management Rating System's highest rank of "particular excellence in measures giving consideration to employee health" (special award).

At Kao, we develop policy to support health based on the clear message of top management embodied in the Kao Group Health Declaration and implementation of the PDCA cycle. The following three points are health initiatives coordinated between the company and the health insurance union that were highly evaluated in the DBJ's rating system.

- (1) Conducts composite analysis of medical interview, health check-up, and health insurance claim data, and ascertains the health status of employees, including through the Kao Group Health White Paper.
- (2) Formulates the mid-term plans of KAO Health 2010 and KAO Health 2015 to promote health, and develops health-promotion policy based on indicators.
- (3) Creates a venue for making reports and improvements through the Health Promotion Committee (Te-ni-te Meeting) and develops company-wide health promotion policy. Designates leaders and staff responsible for promoting health in each workplace and region and practices promoting health at job sites while coordinating with industrial physicians and nursing staff.

We will continue to develop and advance our health policy to realize KAO Health 2015.



Ceremony to receive special award

Kao Group in Japan

Supporting proactive future plans

From fiscal 1992, Kao has held a Life Plan Seminar for employees between the ages of 55–58 to help them plan their lives after retirement. The seminar includes an explanation of Kao's corporate pension system and the social insurance system as well as presentations by invited speakers, who talk about living on a pension and provide proposals and advice on life after retirement along with other information.

In addition, from fiscal 2007, Kao has conducted the Life-Career Design Seminar targeting employees who have reached the age of 45. The seminars are designed to help participants independently consider their future plans at the halfway point in their lives through a better understanding of themselves. In fiscal 2011, we revised and held the seminar, introducing the “values cards” as a tool to deepen understanding of one's own values and facilitating career design with a focus on career of working life.



Life Plan Seminar

Number of participants in the Life Plan Seminar

(Fiscal 1992–2011)

Current fiscal year: 139 (including 36 couples in the married-couple course)

Cumulative total: 1,922 (including 168 couples in the married-couple course)

Number of participants in the Life-Career Design Seminar

(Fiscal 2007–2011)

Current fiscal year: 159

Cumulative total: 649

Occupational Safety, Process Safety and Disaster Prevention

Kao conducts activities to ensure occupational safety and disaster prevention based on Basic Policies for Responsible Care (RC) Activities in order to protect employees from accidents and disasters in the course of conducting business activities.

Policies/structures

Based on a policy of “maintaining employees’ health and safety and improving operational safety,” included in Kao’s Basic Policies for RC Activities, when occupational accidents occur, we analyze the causes and take necessary measures to prevent similar accidents in the future, thereby protecting our employees. In addition, Kao provides extensive safety education to all employees regardless of their employee status at the general training sessions for new hires and training sessions organized by individual divisions in order to boost safety awareness.

Our daily activities for occupational safety, process safety, and disaster prevention are conducted as part of the Responsible Care promotion system. In particular, when disasters and occupational accidents occur, Kao has established a mechanism to keep track of them through the emergency reporting network, which includes overseas Kao Group companies. In addition, when a large earthquake or other large-scale disaster occurs, we will establish a disaster prevention organization headed by the President & CEO. Together as a group, our initial response places top priority on human life as we implement measures including our business continuity plan (BCP).

Goals

In fiscal 2011, the domestic Kao Group established the three prioritized goals of “Eradication of Occupational Accidents,” “Occupational Health,” and “Maintenance of Safe Operations (Eradication of Accidents for Security, Disaster-Prevention Activities)” and implemented activities to achieve them.

Specific activities to eradicate occupational accidents include risk assessments of equipment and work operations, risk assessments of chemical substances, thorough implementation of the 3Ss,*¹ reduction of traffic accidents, strengthened measures to prevent “falling over and falling down” accidents, and strengthened measures against heatstroke.

In the area of occupational health, we conduct occupational health activities and have prepared information on occupational diseases.

Regarding maintenance of safe operations (eradication of accidents for security, disaster-prevention activities), we have given each promotion division the themes of revising facilities management rules, safety assessments of chemical facilities, regular inspections, enhanced patrols, enriched disaster drills, and continuation of business continuity planning (BCP), and they are breaking down these themes further, incorporating them in action plans, and conducting relevant activities.

*3Ss

Seiri (tidiness), *seiton* (order), and *seiso* (cleaning)

Kao Sustainability Report 2012

■ Targets and Results for Occupational Safety/Disaster Prevention and Security (Japan)

Priority target	Relevant division	Indicator	2011		2010 actual (Reference)
			Target	Actual	
Prevention of occupational accidents	Kao Group as a whole including temporary staff	No. of employees with lost work days	0	23	18
		% of all accidents per 1,000 people	2.2 or less	3.4	2.8
		No. of employees injured by occupational accidents	80 or less	118	98
Prevention of traffic accidents	Sales Logistics	[100% negligence] Accidents causing bodily injury (no. of accidents)	0	22	28
		Accidents other than 0% negligence per 100 vehicles	8.9 or less	10.3	10.1
		Accidents other than 0% negligence (no. of accidents)	394 or less	420	482
Accidents	Kao Group as a whole	[Fires/explosions/leaks, etc.] Japan (no. of accidents)	0	2	2

Kao Group in Japan

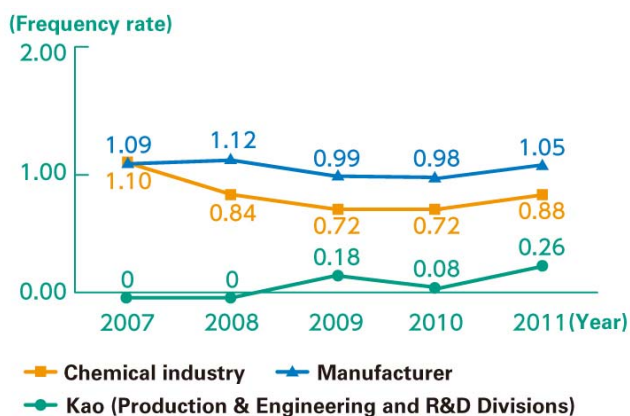
Occupational accidents in 2011

The number of employees across the entire Kao Group (including temporary staff) who suffered occupational accidents in 2011 increased to 118 from 98 people in 2010. Of these, the number of employees suffering injuries resulting in lost work days increased to 23 from 18 people in 2010 (of these, five people lost work days from traffic accidents in which they were 0% negligent, and two people suffered injuries from the tsunami in the Great East Japan Earthquake).

The main factors behind the increase are considered “falling over/falling down” accidents and traffic accidents resulting from carelessness or insufficient checking. Looking at the overall percentage, these factors accounted for almost half of all accidents, and we intend to concentrate on activities to reduce these kinds of minor accidents in the future.

The number of injuries involving work operations at manufacturing facilities, etc. in the Production and Engineering and R&D Divisions (including the Production and R&D Divisions of Kanebo Cosmetics) was 29 (of

■ Changes in the frequency rate in the Production & Engineering and the R&D Divisions



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

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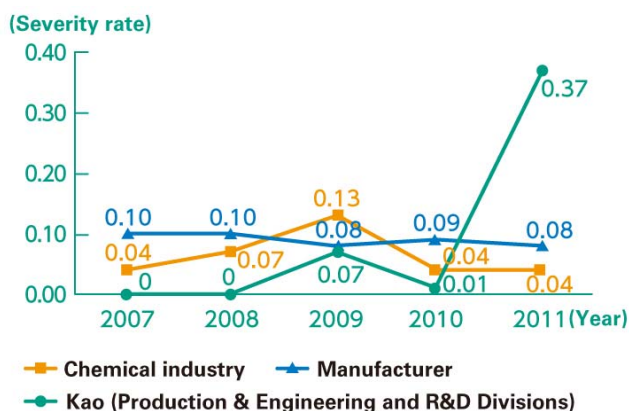
which three resulted in lost work days).

Of the people who lost work days, one person suffered an injury from contact with a high-temperature object, and one suffered an injury with a lasting disability after getting caught in a rotating apparatus. Therefore, the severity rate in 2011 worsened to 0.37 (0.01 in 2010).

As countermeasures, we have launched an organization to strengthen safety measures, conducted a review of all facilities in terms of both equipment and human operations, conducted risk assessments, and are striving to reduce remaining risks in order to prevent reoccurrences.

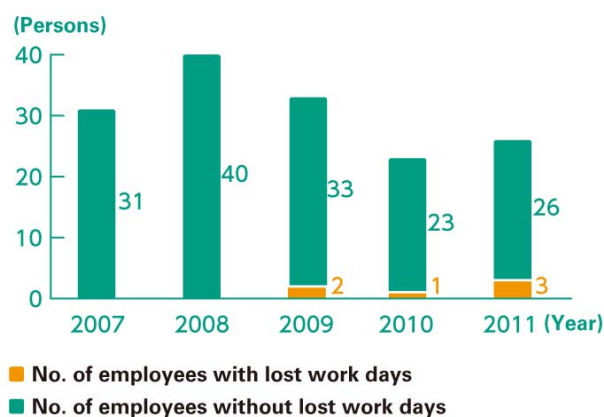
Two incidents of deaths due to accidents occurred for partner companies at plants. These incidents took place during operation of equipment and during a maintenance and inspection. To prevent these types of serious accidents, we have reviewed and modified the safety covers on equipment, shared risk assessment information with affiliated companies, and provided instruction to affiliated companies as they revise their safety guidelines and operational manuals.

■ Changes in the severity rate in the Production & Engineering and the R&D Divisions



Severity rate: Number of working days lost per thousand man-hours actually worked

■ Changes in the number of employees injured by occupational accidents in the Production & Engineering and R&D Divisions



Notes:

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

*The figures for the chemical industry and manufacturers are from the Ministry of Health, Labour and Welfare's "2011 Survey on Industrial Accidents"

Kao Group in Japan

Review and response to the Great East Japan Earthquake

We were able to mitigate the damage to buildings and various facilities through efforts taken since before the earthquake, including seismic retrofitting of buildings, ground stabilization (to prevent liquefaction), and other measures to improve the earthquake preparedness of our facilities. Based on our experience of the 2011 earthquake and tsunami, we are reviewing our earthquake planning and taking the necessary measures.

We had used a safety confirmation system that required telephone lines to confirm the safety of employees. However, as telephone lines were not always working after the disaster, Kao Group transferred the safety confirmation system to a new Internet-based system as of February 2012.

In addition, we have completed reviews of and replenished supplies at our bases that store satellite phones

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for use as a means of communication with disaster-struck areas as well as emergency stockpiles (water, foodstuffs, blankets).

Kao Group in Japan

Drills to prepare for large-scale disasters

At our Wakayama Plant, we have typically conducted drills that simulate a four-meter tsunami (in preparation for simultaneous earthquakes striking the Tokai, Tonankai and Nankai regions). Based on the 2011 earthquake and tsunami, we conducted an earthquake disaster drill on November 29, 2011 that simulated an eight-meter tsunami, twice as tall as our previous drills, with the participation of about 1,500 employees at the Wakayama Plant. We will continue to revise our tsunami simulations and conduct drills at workplaces located near the ocean.

Global

Disaster prevention training

Based on guidance received during audits last fiscal year, on December 19 and 20, 2011, the Production & Engineering Division verified the activities of each team and group related to safety and disaster prevention audits and disaster prevention drills at plants in Malaysia (FCM). They requested that local staff create manuals detailing the content of their activities and continue holding drills. From January 24 to 26, 2012, the Division visited plants in the Philippines (PKI) and conducted educational sessions and operational drills for 17 members of PKI's fire defense force using a large chemical fire engine sent from Japan.

To support activities to reduce occupational accidents at our overseas Kao Group companies, we have started entering data on occurrences of occupational accidents at overseas Kao Group companies into the Environmental and Safety Data Management System (KANCHAN System). Kao intends to continue activities to reduce occupational accidents in cooperation with overseas Kao Group companies.

Global

Occurrence of small fires in 2011

While there were no serious accidents in Japan or overseas, there were two incidents of small fires in Japan and one overseas. None of these incidents resulted in injuries to people.

In light of the above-mentioned incidents of fire, we have revised operations and inspected similar facilities to verify the absence of any abnormalities. We will continue conducting regular inspections, maintenance and patrols of our facilities and equipment to ensure thorough safety management.

<Japan>

- January: High-pressure laboratory, Wakayama Research Laboratories, Kao Corporation
Volatized n-hexane ignited in a heating apparatus.
- March: Diaper manufacturing equipment, Ehime Sanitary Products Co., Ltd.
A plate and grinding blade came into contact at the outlet of a grinding machine, causing sparks that ignited pulp.

<Overseas>

- October: Thermostatic chamber in production measuring room, Shanghai Plant, Kanebo Cosmetics Inc.
Raw materials ignited from the heat given off by the heater.

Partnering with Local Communities

Nurturing the Next Generation



Kao has been utilizing its resources to conduct systematic activities in the three areas of “environment,” “education,” and “community.”

Global Activities



Kao actively engages with local areas in its efforts to contribute to community building.

Disaster Relief



Kao delivers rapid relief assistance to disaster victims in Japan and overseas in accordance with its unified standards.

Nurturing the Next Generation

Kao has been utilizing its resources to conduct systematic activities in the three areas of “environment,” “education,” and “community.”

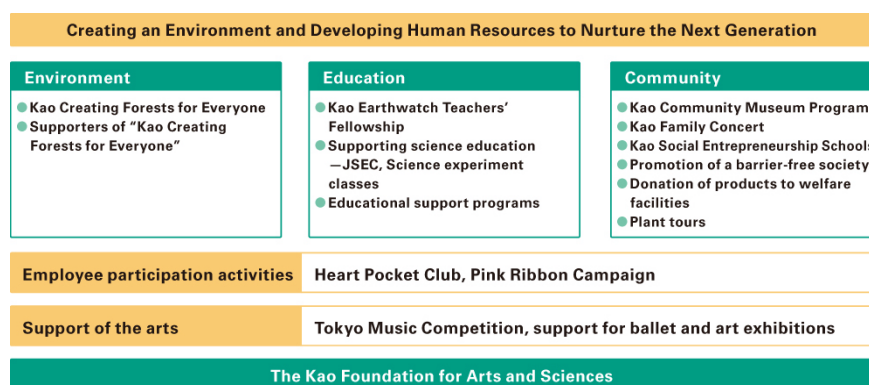
Policies/structures

Since fiscal 2007, Kao has adopted the theme of “Creating an Environment and Developing Human Resources to Nurture the Next Generation,” identifying three key domains—environment, education, and the arts—upon which to concentrate its activities. From fiscal 2012, however, we will shift the focus to “community” in order to promote the entire Kao Group’s involvement in activities contributing to society. Kao will further promote activities that aim to achieve co-existence and co-prosperity with local communities.

Activity Guidelines

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

■ Overview of Kao's corporate citizenship activities



Some of our environmental initiatives can be explored via the following links.

[> p. 73 “Protecting the Environment throughout the Product Lifecycle > Measures for Biodiversity”](#)

[> p. 76 “Protecting the Environment throughout the Product Lifecycle > Environmental Communication”](#)

Goals

Under the theme of “Creating an Environment and Developing Human Resources to Nurture the Next Generation,” Kao has been focusing on “collaboration with NGOs and NPOs,” “activities related to our business,” and “employee participation activities.”

In fiscal 2011, we updated our “Kao Creating Forests for Everyone” program, resuming our expansion of environmental preservation activities within Japan. In fiscal 2012, we are re-evaluating our global environmental activities, promoting a new expansion beyond Japan.

Kao Group in Japan

Newly established volunteer information website

In September 2011, introducing the new special leave for volunteers which launched on June 16, 2011, Kao established a volunteer information website to provide employees with useful information. In order to allow employees the opportunity to interact with as many individuals as possible, we are introducing the volunteer programs of the highest possible quality, and also sharing information with employee volunteers at the website.



Volunteer Information Website

Kao Group in Japan

Supporters of Kao Creating Forests for Everyone

The program is designed to deepen university students' awareness about the environment, with the cooperation of civic groups supported by the "Kao Creating Forests for Everyone" program. Students selected from among those responding to a public announcement participate in activities by the civic groups. The students conduct interviews and write reports, leading to new depths of knowledge and understanding. Furthermore, through the student reports, the public knows the importance of afforestation and increases the support for the civic group. The communication between generations and community building is stimulated, all deepening mutual understanding. Theoretical knowledge and scholarship are supplemented by field experience, allowing students to grasp the importance of being in the field, and include what they heard and thought—in their own words—in their reports.

In fiscal 2011, 10 students joined 10 organizations and composed reports about their experiences. This project is administered by the Japan NPO Center (JNPOC), with the student reports appearing on the NPO Hiroba database managed by JNPOC.



Supporters of Kao Creating Forests for Everyone

Kao Sustainability Report 2012

Kao Group in Japan

Continuing to implement Kao Earthwatch Teachers' Fellowship

The Kao Teachers' Fellowship allows elementary and junior high school teachers to devote about two weeks of their summer holiday to participate as volunteers into overseas field researches for the biodiversity protection undertaken by the NPO Earthwatch. The experiences and impressions gained on location are brought back to their schools and communities and incorporated into environmental education so that students, fellow teachers and, local communities can learn about the importance of environmental and biodiversity protection.



Field research

Number of projects that Kao sponsored

Fiscal 2011 5 projects
(with the participation of a total of 10 teachers)

Number of projects that Kao has sponsored thus far 46 projects
(with the participation of a total of 89 teachers)

Kao Group in Japan

Employee participation in the Mt. Fuji Biodiversity Initiative

NPO Earthwatch Japan conducts field research in Japan on biodiversity protection, with Kao employees dispatched as volunteer researchers.

In fiscal 2011, 8 Kao employees were dispatched to participate in the initiative.



Field research near Mt. Fuji

Topics: Educational support programs in Japan and Overseas



Providing Hand Washing Education Program

From fiscal 2009, we began Hand Washing Education Program for the children in early grades of elementary school throughout Japan to teach the correct method for washing one's hands, the basic habit supporting health maintenance.

In fiscal 2011, approximately 300 Kao employees visited 65 elementary schools in 23 prefectures to conduct lessons. We also hold lessons at our Tokyo Plant, with a total of 10,000 children participating from fiscal 2009 until present.

Children inspect their hands to confirm cleanliness with their own eyes, singing the "Hand Washing Song" as they learn the proper technique. The initiative sees children listening eagerly to the lessons and practicing with pleasure. The Kao employees confirm each child's mastery of the technique, one by one, affording each pupil detailed care.

In evaluations received to date from 152 teachers, 97% rated the experience as "good," commenting that "understanding was achieved through individual experience, making the lesson easy to grasp," that "many children were interested in the hand-washing song and mastered the technique," and that "the children immediately sang the hand-washing song while washing up before school lunch," for example. Meanwhile, Kao employees wrote that "the children were very obedient and participated energetically in the event, making the work very enjoyable," and that "contributing to society spurred greater respect for the company," as well as other comments indicating that this was a good opportunity of social contribution experience for them.

From fiscal 2011, Kao continued implementation, creating a secretariat involving employees from 10 divisions and Group companies participating as teachers or support members. From fiscal 2012, Kao will increase the number of in-house teachers and participating divisions even further to improve the quality of lessons and turn the project into a groupwide activity involving more schools.

In fiscal 2011, meanwhile, Kao launched Hand Washing Education Program in Indonesian kindergartens, involving about 1,400 pupils at 10 facilities. The program is same with the one used in Japan, including the hand-washing song, with children enjoying the lesson. Kao plans to expand this hand washing education program in Asia, in order for the children of the next generation to learn proper hand washing.



Hand-washing lessons



Kao employee working individually with children



Hand-washing lessons in Indonesia

Kao Sustainability Report 2012



Contributing to the enrichment of people's lives by holding House Cleaning Education Program

From fiscal 2010, Kao began House Cleaning Education Program for the children in the early grades of elementary school in accordance with the curriculum of Living Environment Studies. While studying the importance of housecleaning and using implements, students learned about “consideration for one's family” and “the joy of being useful to the family.” In fiscal 2011, about 160 Kao employees visited 28 schools in 11 prefectures, teaching dusting and dishwashing skills. The teachers reported that “the children showed interest in housework, and demonstrated a hunger to continue,” among other comments. Parents, meanwhile, offered comments such as, “my child began helping at home, for which I was grateful.”

In fiscal 2011, Kao started House Cleaning Education Program in Taiwan, based on the initiative in Japan. The employees of Kao (Taiwan) Corporation visited 9 schools to conduct housecleaning lessons, with children learning the importance of housework and proper housecleaning techniques.

We plan to continue and expand this initiative, involving as many employees as possible in the housecleaning lessons to communicate the importance, both of such basic skills and of having consideration for one's family.



Learning dusting techniques during a cleaning lesson



Cleaning Lesson in Taiwan

Kao Group in Japan

Supporting science education and career education

From 2001, in support of science education, Kao provides schools with science experiment classes taught by company employees using Kao products for everyday life as experimental themes. From 2005, Kao has sponsored a free study contest for high school students known as JSEC (Japan Science and Engineering Challenge), presenting an annual Kao Prize for excellent study. The 2011 Kao Prize went to Nao Fukuda and Akitada Soeda of Fukuoka Prefecture's Jiyugaoka High School for their project, “The Estimation of assimilation of *Allonychiurus flavescens* (Collembola; Onychiuridae) and *Folsomia candida* (Collembola; Isotomidae)” In fiscal 2011, we organized the first exchange opportunity between the winning school and Kao, with students considering future careers by interacting with researchers and discussing topics such as “What is research?” and “What does working entail?”

To support children's future livelihoods through career education, we dispatch teachers to educational organizations and organize student visits to Kao Corporation. During fiscal 2011, Kao cooperated with 14 education-related organizations.



The Ninth Japan Science and Engineering Challenge award ceremony (JSEC 2011)

Fiscal 2011 science and career education activities

- Chem Chem Club of the Chemical Society of Japan
- Yamagata Prefectural Sakata Higashi High School
- Keio Girls Senior High School
- Shibaura Institute of Technology Kashiwa Junior & Senior High School
- Ichikawa Gakuen Ichikawa Junior & Senior High School
- Kudan Secondary School, Chiyoda Ward, Tokyo
- Wakayama Municipal Shinnan Elementary School
- Oyama National College of Technology
- Fukushima Prefectural Asaka High School
- Ibaraki High School/Ibaraki Junior High School
- Yamazaki Gakuen Fujimi Junior & Senior High School
- Shinagawa Joshi Gakuin
- Isesaki Municipal Yotsuba Gakuen Secondary School
- Fukashiba Elementary School Kamisu City, Ibaraki Prefecture

Kao Group in Japan

Kao Community Museum Program

With the aim of contributing to the development of local culture, Kao has implemented an open-type subsidy program, the Kao Community Museum Program, to provide support to citizens' groups whose bases are local museums. In addition, to revitalize civil activities nationwide, this program implements exchange programs where citizens' groups that received our aid gather to exchange their experiences and knowledge.

Kao supports citizen's groups in various fields such as history, natural sciences and art. In 2011, 14 highly motivated organizations were for two consecutive years supported as they discovered new cultural resources and took advantage of local resources, such as the group working for the protection of the historical remains of the third breakwater at Tokyo Bay and its use combined with other local resources.

Due to the Great East Japan Earthquake, the 2011 program content was modified, with Kao subsidizing 24 civic organizations offering support to the victims through culture and the arts through the "Close to the Heart Cultural Project 24."



Close to the Heart Cultural Project 24 activity

Kao Group in Japan

Supporting NPOs and NGOs by the Heart Pocket Club

The Heart Pocket Club, Kao's voluntary aid organization, uses part of its funds, accumulated through monthly contributions from employees' salaries, to support NPO/NGO activities and victims of major disasters. Kao established the fund to facilitate social interaction for employees, with participation starting from contributions of one unit, or 50 yen. Moreover, in order to contribute to build communities in the areas where our factories and facilities exist, Kao began supporting civic organization programs in Tochigi Prefecture in 2007, and in Wakayama Prefecture from 2008. Kao subsidizes these groups through the Tochigi



Photo courtesy: NPO Caring for Young Refugees

Kao Sustainability Report 2012

Volunteer Network and Wakayama NPO Center, both liaison organizations.

Fiscal 2011 achievements

- Participating Members: 2,380 individuals (as of March 31, 2012)
- Subsidized NPO/NGO Activities: 22 activities
- Major disaster relief: 6 cases
- Regional program subsidies: 6 organizations in Tochigi Prefecture; 7 organizations in Wakayama Prefecture

Kao Group in Japan

Kao Social Entrepreneurship Schools

Kao supports the development of social entrepreneurs who attempt to solve social issues with business approaches in order to pass a better society on to the next generation.

To this end, Kao launched Kao Social Entrepreneurship Schools, a social entrepreneur development program, in fiscal 2010 in cooperation with Entrepreneurial Training for Innovative Communities. (ETIC.) and supported five entrepreneurs that work to help solve issues surrounding families in particular.

In fiscal 2011, Kao supported the entrepreneur contributing to reconstruction from the Great East Japan Earthquake in the Innovation Division.

●Startup Division

Support for young entrepreneurs around the startup period

- Yukari Horie
NPO ArrowArrow
Maternity leave support for small and medium-sized enterprises
- Tomoari Miki
NPO Tadaima!
Housework sharing—support for male participation in household chores
- Takae Moriyama
NPO 3 keys
Support for studying at orphanages to foster self-reliance

●Innovation Division

Support for entrepreneurs with previous successes with their new efforts for Great East Japan Earthquake reconstruction

- Hideyuki Katagai
NPO Kids' Door
Study support project for junior and senior high school students
- Kensuke Sugawara
CANNUS, organization of volunteer visiting nurse
Helping people who have difficulty in getting medical treatment, nursing care and living normal life, together with nurses and care workers in the communities

Global Activities

Kao actively engages with local areas in its efforts to contribute to community building.

Global

The Pink Ribbon Campaign

The Pink Ribbon Campaign is a social contribution program jointly implemented by Kao Corporation, Kao Customer Marketing Co., Ltd., Kanebo Cosmetics Inc., and Kanebo Cosmetics Sales, Inc. since 2007. This is an awareness-raising campaign aimed at informing customers about the benefits of early breast cancer detection in the form of leaflets distributed to customers by the in-store beauty advisers/counselors wearing pink ribbons for Kao's brands *Sofina* and *Est* and Kanebo Cosmetics.

Kao, which had previously taken the Pink Ribbon Campaign to Shanghai and Hong Kong, expanded the initiative to Taiwan starting from fiscal 2011.



Distributing enlightening leaflets to customers

Global

Improving public health in local communities

Stressing the importance of elevating hygiene and health awareness, PT. Kao Indonesia cooperated with a local public organization to place 15 trash containers in public areas near the plant which previously lacked such items. As a result of this initiative, the local public organization won first place in the South Jakarta Clean and Green Contest, further contributing to improvements in community public health.



Trash containers placed near our local plant

Kao Sustainability Report 2012

Global

Community social welfare outreach

Quimi-Kao S.A. de C.V. (Mexico) actively supports local schools, kindergartens, and retirement homes near the plant. Employees regularly volunteer at the various institutions, and we subsidize the purchase of school and nursing supplies and contribute to facility maintenance, repairing electrical equipment and roads and painting walls.



Quimi-Kao employees paint the walls of nearby institutions

Disaster Relief

Kao delivers rapid relief assistance to disaster victims in Japan and overseas in accordance with its unified standards.

Policies/structures

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

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

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

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

Global

Disaster relief in fiscal 2011

Disaster	Support period	Company	Support description
Fukushima & Niigata torrential rain disaster	July 2011	Kao Corporation	Kao Corporation and its employees together contributed 400,000 yen in relief funds, with Kao donating products approximating 1.1 million yen in worth as relief supplies.
East African drought	August 2011	Kao Corporation	Kao Corporation and its employees together contributed 400,000 yen in relief funds.
Severe Tropical Storm Talas (Typhoon No. 12 in Japan)	September 2011	Kao Corporation	Kao Corporation and its employees together contributed 5.2 million yen in relief funds, with Kao donating products approximating 2.6 million yen in worth as relief supplies. Meanwhile, 57 employees volunteered to assist with mud removal from homes and debris clearance.
Thailand floods	October 2011	The Kao Group	The Kao Group and its employees together contributed 5.5 million yen in relief funds, with the Kao Group donating products approximating 1.6 million yen in worth as relief supplies
Van earthquake in eastern Turkey	October 2011	Kao Corporation	Kao Corporation and its employees together contributed 400,000 yen in relief funds.
Severe tropical storm Washi in the Philippines	December 2011	The Kao Group	The Kao Group and its employees together contributed 1.6 million yen in relief funds, and subsidized provision of water for household use in urban areas.

Information about Kao's relief activities following the Great East Japan Earthquake can be found at this link.

[> p. 6 "Response to the Great East Japan Earthquake"](#)

Kao Sustainability Report 2012



Kao employees assist in mud removal from subflooring following Typhoon No. 12 in Japan



A Pilipinas Kao fire truck delivers water for household use to urban residents of Cagayan de Oro

Partnering with Our Corporate Customers

Consumer Products Business



Kao offers value-added products and information in partnership with our retailers, aiming to contribute to enhancements in the cleanliness, beauty, and health aspects of our consumers' lifestyles.

Chemical Business



Kao actively implements information exchanges and collaboration with corporate customers for the purpose of facilitating the achievement of our shared prosperity and reducing environmental impact.

Professional-Use Products Business



Kao vigorously engages in information exchange and cooperative interaction to facilitate our professional customers' on-site hygiene management and reduce their total costs and environmental impact.

Consumer Products Business

Kao offers value-added products and information in partnership with our retailers, aiming to contribute to enhancements in the cleanliness, beauty, and health aspects of our consumers' lifestyles.

Policies/goals/structures

Kao Customer Marketing Co., Ltd. (CMK), Kao's affiliate responsible for selling Kao consumer products to retailers, endeavors to reinforce cooperation with its retailers, including supermarkets and drugstores, through proposal-oriented sales activities. CMK also cooperates with Kao Field Marketing Co., Ltd., responsible for shelf displays, to support the creation of selling spaces where consumers can easily shop. As for cosmetics, beauty advisers talk to customers and make recommendations with the aim of providing high-quality counseling services. We will continue promoting development of sales and marketing tools, accurately reading and exploiting changing markets and consumer behavior.

Collaboration between CMK and retailers

Incorporating retailer/consumer information into product development and improvement of sales



Promoting the success of retailers, our interface between products and consumers, and activities to reduce environmental impact

Kao Group in Japan

Creating senior-friendly display areas

In response to the rapidly-expanding tier of older customers, Kao began coordinating with retailers in fiscal 2011 to concentrate on creating senior-friendly display areas and sales methods. Kao conducted in-store surveys of seniors' purchasing habits, and measured ideal store shelf heights for its senior customers, displaying items on those shelves which are of particular interest to older consumers. Those display areas are "universal design sales spaces," centered around



"Universal design sales space" featuring household cleaners

Kao Sustainability Report 2012

home care cleaning products, developed in cooperation with retailers. As a result, many retailers experienced increased sales, corresponding to an improved purchase experience rate. At the same time, we improved the size and shape of lettering and font on storefront mounted posters and bulletin boards, with many customers offering feedback such as, “Visibility improved greatly and shopping became so much easier.”

Kao Group in Japan

Proposal-oriented sales activities addressing the changing market and consumers

Kao Customer Marketing, Co., Ltd (CMK) sponsors Kao Collaboration Fair for retailers each year in early summer, introducing its products and proposal-oriented sales activities. In June 2011, considering nationwide reductions in electricity usage following the Great East Japan Earthquake, Kao proposed “beat the heat plan,” and “stay healthy plan” with suggestions for retailers on how to rejuvenate storefront displays. Retailers responded with encouraging feedback such as, “On the sales floor, where we discover consumer needs, we are reminded once again of Kao’s ability to convey powerful proposals.”



Store displays introducing ways to “beat the heat” and “stay healthy”

Chemical Business

Kao actively implements information exchanges and collaboration with corporate customers for the purpose of facilitating the achievement of our shared prosperity and reducing environmental impact.

Policies/goals/structures

One of Kao's core businesses is the production and sale of chemical products to customers operating in a wide range of industries throughout the world for use as intermediate materials. The main focus of our chemicals business is oleochemicals (fat and oil derivatives), performance chemicals (surfactants) and specialty chemicals (information materials, fragrances). In this business, Kao has been required to provide corporate customers with prompt information concerning laws and regulations related to products and product safety through supply chains. Therefore, we are attempting to promote close communication with corporate customers and sales distributors.

■ Cooperation with corporate customers and sales distributors

Product/technical service/information on the environment, safety (SDS, etc.), regulations, societal trends, etc.



Kao Group in Japan

Continuously implementing information exchange meetings with sales distributors

The role of Kao sales distributors is gaining in importance, in light of supply chain information exchange about chemical substance management and handling of sales distribution* during earthquake-related disasters. In fiscal 2011, Kao and its nine key chemical business sales distributors once again discussed trends in the various laws and regulations governing chemical products and exchanged information on environmental and safety initiatives. On this occasion, sales distributors delivered detailed progress reports on their fiscal-year goals, specifically including their Business Continuity Plans in the event of disaster. Kao, meanwhile, reported on new international trends regarding chemical substance management as well as the status of new initiatives, representing a reconfirmation of our respective roles in the supply chain.

*Sales distribution

Whereas "physical distribution" or "logistics" refers to the physical flow of goods, "commercial distribution" refers to the flow of information and rights accompanying the ordering, dispatch, payment, etc. of goods: sales distribution as opposed to physical distribution/logistics.

Kao Group in Japan

Training of new sales distributor employees

Kao sponsors training for new employees of sales distributors every other year to promote an understanding of the quality and safety of Kao chemical products and to ensure continuity for corporate customers. In September of fiscal 2011, we sponsored such training over a two-day period at our Wakayama Complex for almost 60 participants.

The training included basic knowledge about Kao products, an introduction to comprehensive safety management initiatives, a hands-on tour of our plant and research facility, and a tour of the Kao Eco-Lab Museum which opened in July, with an introduction to Kao's eco initiatives.



Training of new sales distributor employees

Professional-Use Products Business

Kao vigorously engages in information exchange and cooperative interaction to facilitate our professional customers' on-site hygiene management and reduce their total costs and environmental impact.

Policies/goals/structures

Kao Professional Services Co., Ltd. (KPS) proposes its original professional-use products and systems to professional customers who require special cleaning capabilities and hygiene management in the areas of food service (food-service and food processing industries), recreation (hotels, barber and beauty shops, etc.), and medical support & care (hospitals and nursing-care facilities).

KPS proposes solutions tailored to suit the needs of individual industries, such as the prevention of food poisoning and realization of clean environments in the area of food service, hygiene management for “comfort” and “beauty” in the area of recreation, and infection-control information support in the area of medical support & care. KPS aims to realize optimal hygiene management for its customers and reduce operational costs.

Kao Group in Japan

Implementing infection-control support activities for staff engaged in medical work and nursing care

“Infection Control Best Practices” is one of the techniques aiming for behavior modifications of medical and nursing staff, by assessing the risks in medical and nursing practices from the perspective of infection control, preparing the protocols with scientifically based solutions and checklists, and practicing them. Kao Professional Services Co., Ltd. sponsors research meetings and seminars for a broad sharing of Infection Control Best Practices examples to support the activities of hospital and nursing facility professionals engaged in infection control management.

In fiscal 2011, employees of 172 facilities (149 facilities in fiscal 2010) in the Kinki area and 62 facilities in the three Tohoku prefectures of Aomori, Akita, and Yamagata (168 facilities across six Tohoku area prefectures in fiscal 2010), implemented Infection Control Best Practices. Kinki area training involved a seminar for over 1,000 participants, held in Osaka.

And 133 staff from 50 facilities, including Infection Control Nurses and Nutritionists participated in a working group producing protocols for water, medical care, and meal provision during disasters held in Miyagi Prefecture, which experienced the Great East Japan Earthquake.



Infection Control Best Practices Seminar held in the Kinki area



Infection Control Best Practices Disaster-Response Working Group in Miyagi Prefecture

■ Cooperation with corporate customers and sales distributors

Product/technical service/information on the environment, safety (SDS, etc.), regulations, societal trends, etc.



Kao Group in Japan

Food hygiene management: a total system proposal

Kao Professional Services Co., Ltd. implements hygiene management initiatives in the restaurants and food processing plants in cooperation with our customers. We plan programs with hygiene management activities conforming to the PDCA cycle, offering results-based, on-site educational support (through hygiene workshops) as well as in-store inspections and improvement proposals, with suggestions for operational standardization. Such standardization prevents accidents and improves efficiency, contributing to cost cutting.

In fiscal 2011, we held 178 hygiene management seminars (119 in fiscal 2010). We also implemented appraisals at 160 locations, covering 65 customers, providing hygiene improvement proposals as needed (137 locations at 34 companies in fiscal 2010).

Partnering with Our Suppliers

Kao maintains stringent legal ethics as it engages in fair and impartial procurement activities. While aiming to contribute to the realization of a society with sustainable development, we bear our corporate responsibilities with consideration for resource protection, environmental conservation, safety, and human rights.

Policies/structures

In order to fulfill its corporate responsibility, Kao builds favorable partnerships with all of its suppliers. We communicate Kao's philosophy and corporate objectives, maintaining Guidelines for Procurement of Raw Materials and Equipment conforming to standards of fairness, compliance and ethics, and social responsibility, as we pursue our procurement activities.

Furthermore, we unite with our suppliers in seeking improvements to our guidelines, which considers issues such as resource protection, environmental conservation, safety, and human rights, meanwhile fulfilling Kao's required levels of quality and standards by freely exchanging technical information to strengthen partnerships.

For details, refer to "Guidelines for Procurement of Raw Materials and Equipment"

http://www.kao.com/jp/en/corp_csr/csr_procuration_00.html

Goals

Kao has established CSR Procurement Standards, covering measures to deal with compliance, human rights, and labor issues concerning the environment, safety, laws and social norms. We ask our suppliers to cooperate in upholding the standards and we monitor the self-assessment of their compliance status. If a supplier is not meeting Kao standards, we visit the supplier, share concerns about the issues, and implement measures to correct the situation.

In addition, we have produced a database for CSR assessment results and established an online system to assist our supply managers with evaluating suppliers.

We are adding provisions for issues such as the environment, human rights, and labor to basic contracts executed with our suppliers, and switching to new versions as contracts are newly concluded or renewed.

For details, refer to "CSR Procurement Standards"

http://www.kao.com/jp/en/corp_csr/csr_procuration_00.html

Kao Group in Japan

■ Number of suppliers monitored for social issues and percentage meeting CSR Procurement Standards

	Number of suppliers to Kao Corporation	Number of suppliers to the Asian Kao Group
Up to FY 2008	925 (97%)	353 (98%)
Up to FY 2009	934 (99%)	380 (98%)
Up to FY 2010	947 (99%)	461 (98%)
Up to FY 2011	962 (99.7%)	551 (98%)

■ Number of suppliers monitored for environmental issues and percentage meeting CSR Procurement Standards

	Number of supplier plants to Kao Corporation	Number of supplier plants to the Asian Kao Group
Up to FY 2008	1,247 (96%)	215 (94%)
Up to FY 2009	1,256 (98%)	242 (95%)
Up to FY 2010	1,286 (99%)	283 (95%)
Up to FY 2011	1,303 (99.6%)	331 (95%)

Kao Group in Japan

Implementation of a supplier satisfaction survey

In order to confirm that its procurement activities are fair and impartial, Kao regularly conducts a supplier satisfaction survey. The survey is anonymous and administered by an external organization, with results used in the implementation of corrective measures.

Global

Implementation of vendor summits

Kao holds supplier meetings (vendor summits) every year as an opportunity to exchange views to strengthen partnerships with suppliers.

At the fiscal 2011 summit, we presented a business overview of Kao and shared information on BCM (Business Continuity Management) and social responsibilities governed by the ISO 26000 international standard.



Vendor summits

Kao Sustainability Report 2012

■ Changes in the number of companies that participated in the vendor summit



Kao Group in Japan

Employee training

Kao educates new purchasing department employees on issues such as fairness and impartiality, adherence to laws and ethics, and social responsibilities vis-a-vis our basic approach to procurement.

In fiscal 2011, all purchasing department employees received training from an outside expert on ISO 26000 and CSR procurement, reconfirming their understanding of global social issues such as human rights and labor.



Training session for Purchasing Division employees

Global

Promoting the sustainable sourcing of raw materials

Kao has been working toward the sustainable sourcing of raw materials, paying due consideration to biodiversity by actively adopting biomass and certified materials.

From fiscal 2010, Kao began palm oil procurement with due consideration to the preservation of tropical rainforests, and by 2015, is aiming for a complete shift to certified palm oil.

[For details, refer to p. 73 "Protecting the Environment throughout the Product Lifecycle > Measures for Biodiversity / Efforts toward 100% use of sustainable palm oil and palm kernel oil to mitigate tropical forest damage"](#)

Kao's use of stationery as well as office automation supplies follows the Green Procurement Standard, prioritizing procurement of environmentally-conscious items. Kao has shifted to forest-conserving FSC certified* paper for use within the Group companies. In fiscal 2011, Kao began using FSC certified paper in its cosmetics product packaging. Kao will continue active use of recycled paper, contributing to a

recycling-oriented society through *Yoki-monozukuri*.

Moreover, we are decreasing our use of plastic, executing a partial shift to plant-based polyethylene in refill packaging for *Merit*, one of our hair care products. Using plant-based resin, Kao can reduce CO₂ generated from product packaging while lessening our dependence on fossil fuels.

[For details, refer to p. 50 “Protecting the Environment throughout the Product Lifecycle > “eco together” with Consumers/Customers: Development of Environmentally-conscious Product / CO₂”](#)

We will continue to promote the responsible procurement of raw materials in cooperation with suppliers and related organizations.

*FSC certification

FSC (The Forest Stewardship Council) is an independent, non-governmental, not-for-profit organization established to promote the responsible management of the world's forests. The FSC label ensures that the forest products including paper come from responsible sources—environmentally appropriate, socially beneficial and economically viable.

Partnering with Shareholders and Investors

Kao responds to the trust of shareholders and investors both in and outside Japan, and lives up to their expectations by promoting information disclosure and communication.

Policies/structures

Kao has a basic policy of considering shareholder returns as one of its priorities. Kao secures an internal reserve for capital investment and acquisitions from a medium-to-long-term management perspective, while placing priority on providing shareholders with stable and continuous dividends. In addition, Kao flexibly considers the purchase and retirement of its shares from the standpoint of improving capital efficiency.

As for information disclosure, Kao has a basic policy of disclosing information in a timely, accurate and fair manner in accordance with its Disclosure Guidelines. With regard to the earnings announcement, Kao discloses necessary information on the online Timely Disclosure Network (TDnet)* based on the disclosure standards of Tokyo Stock Exchange Group, Inc. This information is also posted in the Investor Relations section of Kao's website in Japanese and English.

Kao will continue to seek improvement of IR activities through reinforcing strategic information disclosures, such as enhanced delivering of messages from top management and intensified relationships with institutional investors within and outside Japan.

* TDnet (Timely Disclosure Network): A service to distribute information on listed companies on a real time basis; operated by Tokyo Stock Exchange Group, Inc.

For details, refer to "Investor Relations"

http://www.kao.com/jp/en/corp_ir/investors.html

Disclosure Guidelines

http://www.kao.com/jp/en/corp_ir/disclosure.html

> p. 129 "Recognition by Outside Organizations / Major global SRI indexes in which Kao has been included"

Global

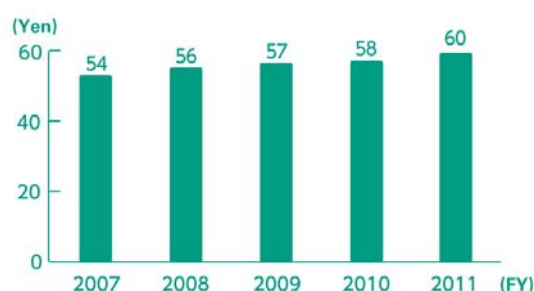
Distribution of profits for fiscal 2011

Distribution of profits for fiscal 2011 was as follows.

Distribution of profits for fiscal 2011

Net income 52.4 billion yen
Annual cash dividend 60 yen per stock (increased by 2.0 yen from previous year)
(marked the 22nd consecutive year of increase in cash dividends)
Consolidated dividend payout ratio 59.7%

Changes in dividends per share



Kao Group in Japan

Publicizing shareholder meetings and facilitating the exercising of voting rights

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

Fiscal 2011 Annual General Meeting of Shareholders

Total number of shareholders who attended: 1,180

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

Kao Group in Japan

Implementation of dialogue between Kao and its shareholders and individual investors

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

In fiscal 2011, Kao conducted a total of eight Kao Museum tours for shareholders over four days during the month of October, with 236 people attending.

Overview of IR activities

- Financial results briefings: Held twice a year (same day as results are announced)
 - IR road show outside Japan: Held 4 times a year (In North America, Europe, and Asia)
 - Business briefings and facility tours: Held 4 times a year
 - One-on-one meetings: Approx. 330 interviews in and outside Japan
 - Disclosure of information on corporate website
 - Issuance of the reports to shareholders (year-end and interim) *Kabunushi no Minasamae* (Japanese version)
 - Issuance of the Annual Report (English version)
 - Provision of IR information through RSS feed distribution*
- *RSS feed distribution: A distribution system that automatically provides subscribers with a newsfeed every time a website is updated

Kao Sustainability Report 2012

Recognition by Outside Organizations

Recognition by Outside Organizations

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>

Recognition by outside organizations in fiscal 2011

Major external corporate recognition and commendations in fiscal 2011 are listed below:

Date of award	Awarded division	Award name and description	Organization
April 25, 2011	Kao Corporation	Neo series with its centerpiece product, <i>Attack Neo</i> , won the Third Japan Marketing Grand Prize	Japan Marketing Association
June 16, 2011	Kao Corporation	Received the Japan Star Award (President of Clean Japan Center Award), and numerous other prizes in the 2011 Japan Packaging Contest.	Japan Packaging Institute
July 13, 2011	Kao Corporation	Received Fifth Responsible Care (RC) Award for chemical substances emissions reduction initiatives	Japan Chemical Industry Association
November 7, 2011	Kao Corporation	Selected as Top Public Disclosure Company in the Carbon Disclosure Project (CDP) 2011 at the CDP 2011 Japan briefing	Carbon Disclosure Project (CDP)
November 22, 2011	Kao Corporation	Received Award of Excellence, fifth Work-Life Balance Awards sponsored by the Council for Promotion of Work-Life Balance	Japan Productivity Center
March 8, 2012	Kao Corporation	Achieved the highest rank in the Development Bank of Japan's health management rating system for its employee health initiatives	Development Bank of Japan
March 15, 2012	Kao Corporation	Selected as one of the "World's Most Ethical Companies" for the sixth consecutive year	Ethisphere™ Institute
January 20, 2012	Fatty Chemical (Malaysia) Sdn. Bhd.	Received the Prime Minister's Hibiscus Award, presented for corporate environmental leadership, for the second consecutive year	The Malaysian Government
January 10, 2012	PT. Kao Indonesia Chemicals	Received the Gold Award for its responsible care activities in Indonesia	The Komite Nasional Responsible Care Indonesia (KN-RC)
January 16, 2012	Kao (China) Holding Co., Ltd.	Selected as one of China's 100 best employers for fiscal 2011	Peking University's Corporate Social Responsibility and Employer Brand Communication Center, in conjunction with China Central TV's education channel

Independent Review

Independent Verification Opinions on Kao Sustainability Report 2012

June 29, 2012



To: Mr. Michitaka Sawada
President and CEO, Kao Corporation

Junji Takase
Chief Director, Responsible Care Verification Center
Japan Chemical Industry Association

■ Purpose of verification

This verification report aims to express opinions of the Responsible Care Verification Center, in its capacity as an expert in the chemical industry, on the following matters as to the Kao Sustainability Report 2012 prepared by Kao Corporation (hereinafter, "the Report"). The scope of the verification is confined to matters related to the environment, safety and health.

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

■ Verification procedure

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

■ Opinions

- 1) Rationality of methods used to calculate and compile the performance indices (numeric values), and accuracy of the numeric values
 - The Center confirmed that rational methods were employed to calculate and compile numeric values through audits conducted at the Head Office, the Wakayama Plant, and Kawasaki Plant. It also confirmed that Kao established the Environmental & Safety Data Management System ("Kanchian" System), which automatically aggregates numeric values related to environmental and occupational safety activities.
 - Insofar as we audited, numeric values for performance are accurately calculated and compiled.
- 2) Accuracy of information other than numeric values
 - The Center confirmed that the information contained in the Report was accurate. Although the Center pointed out that the draft Report contained some inappropriate expressions and difficult-to-understand sentences, appropriate corrections have been incorporated in the final Report. The Center thus recognizes no significant errors in this Report that call for corrections.
- 3) Evaluation of Responsible Care (RC) activities
 - The Center recognizes that Kao is implementing initiatives to reduce the environmental impact throughout the product lifecycle based on the slogan "eco together," expanding its pioneering activities involving various stakeholders.
 - The Center recognizes that Kao is promoting the steady proliferation of RC activities to Group companies by, for example, standardizing RC activities and welcoming Group companies from Indonesia to report on their activities at the fiscal 2011 meeting of the Committee for Responsible Care Promotion.
 - The Center recognizes the efforts of the Kawasaki Plant and Wakayama Plant, Kao's main plants in the eastern and western areas of Japan respectively, in employing the PDCA (Plan, Do, Check, and Act) cycle of RC activities to reduce CO₂ emissions, waste generation volume and final waste disposal volume, achieving the fiscal 2011 targets for each of them.
 - The Center recognizes the Wakayama Plant's efforts in environmental conservation, including its participation in the beautification of the plant's surrounding areas and the Enterprise Forest Project ("Kigyo no mori") undertaken by the prefecture, as well as the plant's greening project, which has achieved Stage 3 certification in the Social and Environmental Green Evaluation System from the Organization for Landscape and Urban Green Infrastructure.
 - In order to prevent recurrence of occupational accidents and eradicate similar disasters in plants, Kao has launched a company-wide project to ensure the horizontal development of additional security measures, which are expected to show promising results.
- 4) Characteristics of the Report
 - This Report with detailed information for professionals can be obtained at the Kao website. A pamphlet with more simplified descriptions and concrete examples about *Yoki-Monozukuri*, the foundation of the Kao Group's CSR activities, is also available, making it possible for readers to choose according to their needs.



Enriching lives, in harmony with nature.

Kao Corporation

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