



Kao Annual Report 2010

For the year ended March 31, 2010

Enriching lives,
in harmony with nature.

Kao

Enriching lives, in harmony with nature.

Kao is dedicated to filling consumers' daily lives with smiles. The philosophy behind our product development and manufacturing has remained unchanged over 120 years since *Kao Sekken (Kao Soap)* was introduced in 1890.

With the business environment continuing to change on a global scale, what can Kao do as a leading manufacturer? We believe we can provide new value to people around the world through *Yoki-Monozukuri*, pursued from an ecological perspective.

Positioning ecology at the core of management, Kao is striving for the wholehearted satisfaction and enrichment of the lives of people globally in the fields of cleanliness, beauty and health.

Going forward, the Kao Group will continue to enhance *Yoki-Monozukuri* and pursue true, sustainable enrichment made possible through the harmony of people and nature.

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





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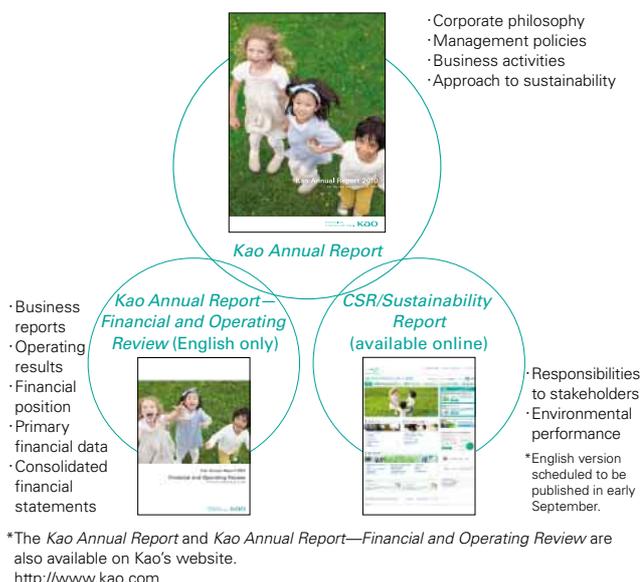
Note on forward-looking and other statements

Forward-looking statements in this report include projections based on assumptions, outlooks, and plans concerning future operations and performance that are current as of the date of publication.

Editorial Policy

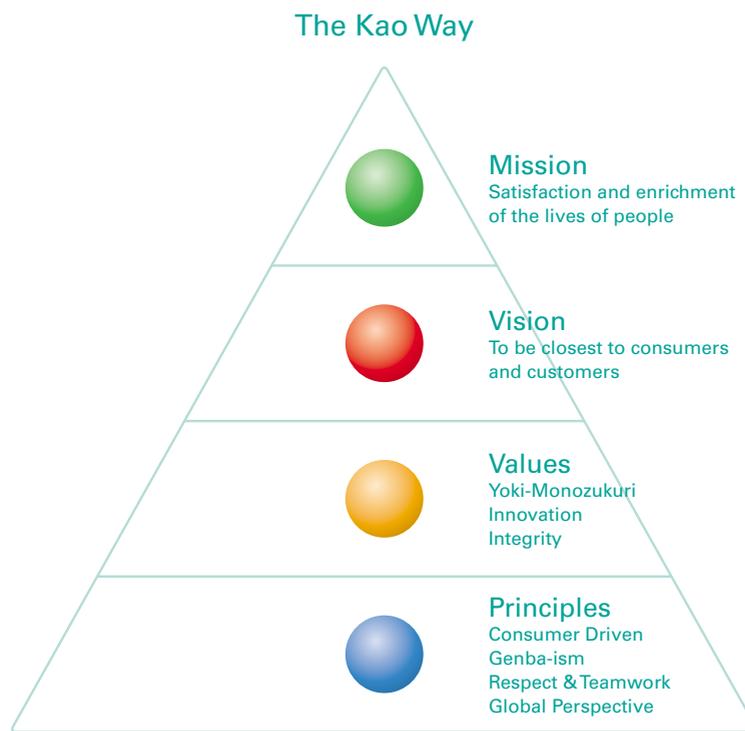
The Kao Group's corporate activities are presented primarily through three reports.

The Kao Group reports its corporate activities to stakeholders by means of three communication tools: the *Kao Annual Report*, *Kao Annual Report—Financial and Operating Review*, and *CSR/Sustainability Report* (available online). The *Kao Annual Report* combines environmental, social, and economic content to provide a comprehensive look at the Kao Group, while the *Kao Annual Report—Financial and Operating Review* and *CSR/Sustainability Report* address the past fiscal year's activities, results, and associated quantitative data from economic as well as environmental and social perspectives, respectively.



Embracing the Kao Way

In order to strive for the wholehearted satisfaction and enrichment of the lives of people globally, the Kao Group is committed to contributing to the sustainability of the world through the global sharing and implementation of the Kao Way, our corporate philosophy.



Mission

Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective. This commitment is embraced by all members of the Kao Group as we work together with passion to share joy with consumers and customers in our core domains of cleanliness, beauty, health and chemicals.

Vision

We aim to be the global group of companies that is closest to the consumers and customers in each market, earning the respect and trust of all stakeholders.

Values

Yoki-Monozukuri	<ul style="list-style-type: none"> ● Fusing Needs & Seeds ● Uniting Abilities ● Yoki-Monozukuri Cycle
Innovation	<ul style="list-style-type: none"> ● Continuous Improvement & Innovation ● Never being Satisfied with the Status Quo ● Difficulties are Opportunities
Integrity	<ul style="list-style-type: none"> ● Respect, Fairness, Sincerity & Diligence ● Behaving Lawfully & Ethically ● Responsible Corporate Citizen

Principles

Consumer Driven	<ul style="list-style-type: none"> ● The Consumer is Our First Priority ● Be Close to the Consumer ● Communicate with the Consumer
Genba-ism	<ul style="list-style-type: none"> ● Understand the Consumer Genba ● Unification through Knowing Genba ● Inspiration from Genba
Respect & Teamwork	<ul style="list-style-type: none"> ● Embrace Diversity ● Maximize Individual Capabilities & Performance ● Enhance Active Communication ● Cooperate with Business Partners
Global Perspective	<ul style="list-style-type: none"> ● Understand Local Needs ● Develop Suitable Local Business Operations ● Be Open to New Ideas ● Global Optimization

*More detailed information on the Kao Way is available at Kao's website.
<http://www.kao.com/group/en/group/kaoway.html>

Principal Indices

This section presents principal consolidated financial data and environmental data.
(Years ended March 31)

Financial Data

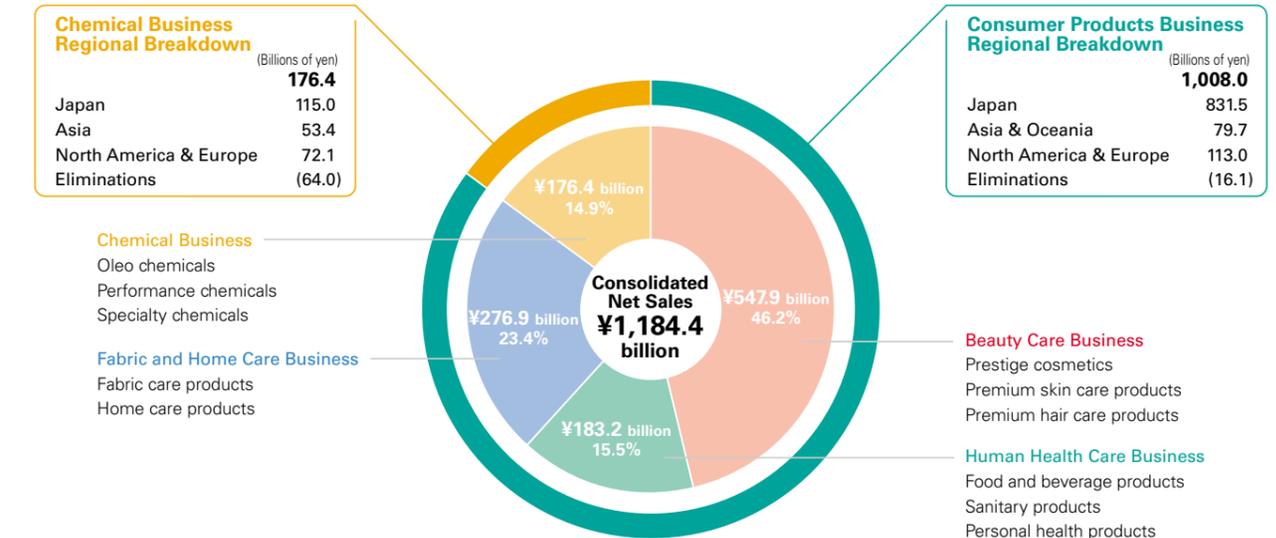
For the Year:	2006	2007	2008	2009	2010
Net sales (billions of yen)	971.2	1,231.8	1,318.5	1,276.3	1,184.4
EBITA (billions of yen)	135.5	161.5	157.6	134.7	129.5
Operating income (billions of yen)	120.1	120.9	116.3	96.8	94.0
Net income (billions of yen)	71.1	70.5	66.6	64.5	40.5
EBITDA (billions of yen)	180.9	213.0	209.7	184.3	178.8
ROE (%)	14.9	13.1	11.7	11.5	7.3

At Year-end:	2006	2007	2008	2009	2010
Total assets (billions of yen)	1,220.6	1,247.8	1,232.6	1,119.7	1,065.8
Net worth (billions of yen)	509.7	564.5	574.0	545.2	565.1
Number of employees	29,908	32,175	32,900	33,745	34,913

Per Share:	2006	2007	2008	2009	2010
Net income (yen)	130.58	129.41	122.53	120.25	75.57
Cash dividends (yen)	50.00	52.00	54.00	56.00	57.00
Net worth (yen)	935.11	1,035.66	1,070.67	1,017.19	1,054.31

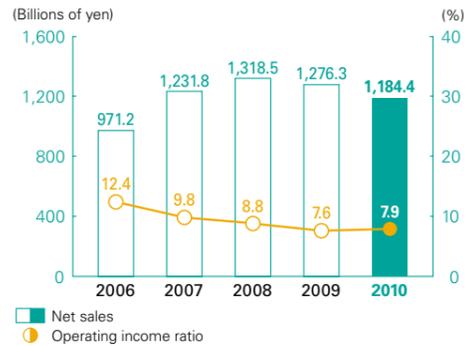
* The figures shown are rounded to the nearest whole number or decimal.
 * EBITA (earnings before interest, taxes and amortization) is operating income before amortization of goodwill and other items related to acquisitions.
 * EBITDA (earnings before interest, taxes, depreciation and amortization) is computed by adding operating income and depreciation and amortization.
 * ROE calculations do not include minority interests and stock acquisition rights.
 * Net worth is computed by excluding minority interests and stock acquisition rights from total assets.
 * Cash dividends per share are the amounts applicable to their respective years, including dividends paid after the end of the year.

Business Segment Sales

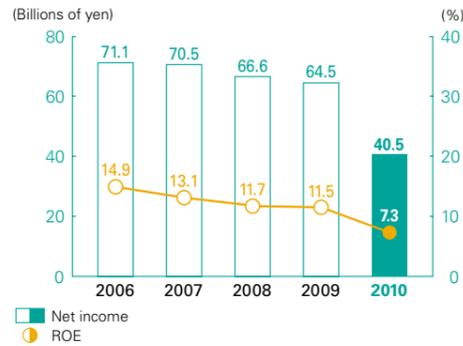


* Figures are rounded to the nearest whole number or decimal.
 * Figures in the graph represent net sales to outside customers only.
 * Eliminations represent intersegment sales.

Net Sales and Operating Income Ratio



Net Income and ROE



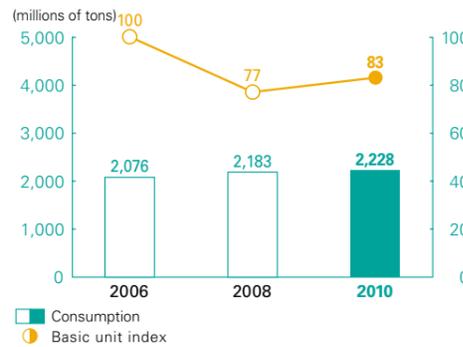
Environmental Data

	2006	2008	2010
Consumer products CO ₂ emissions (thousands of tons)	6,308	6,894	6,741
Water consumption during products use (millions of tons)	2,076	2,183	2,228

Consumer Products CO₂ Emissions

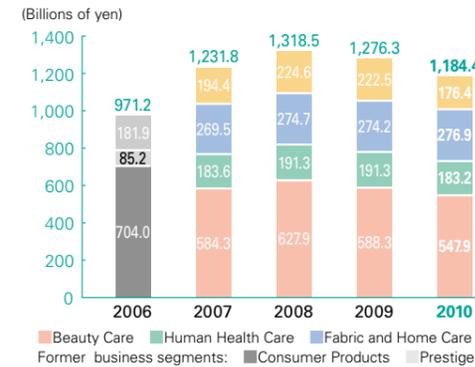


Water Consumption during Products Use

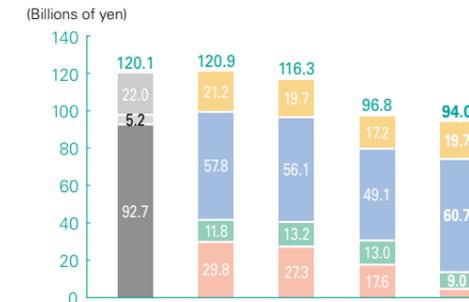


* The basic unit index is an index calculated after assigning the value 100 to CO₂ emissions and water consumption per net sales in the year ending in March 2006. This net sales was calculated by removing the net sales amount of Kao Customer Marketing Co., Ltd.'s Nivea Kao products from the net sales amount of Kao Corporation and Kanebo Cosmetics Inc.
 * CO₂ emissions and water consumption were calculated by Kao based on data for domestic Group companies.
 * CO₂ emissions does not include the amount from the use and disposal of industrial products.
 * Water consumption consists of water consumed during use of consumer products.

Net Sales by Business Segment

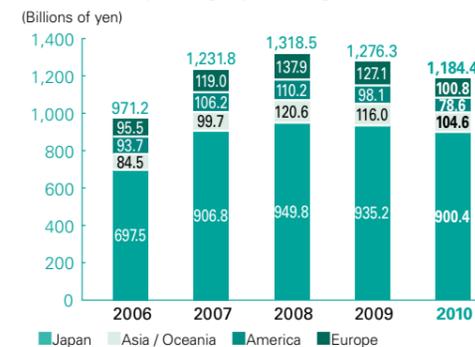


Operating Income by Business Segment

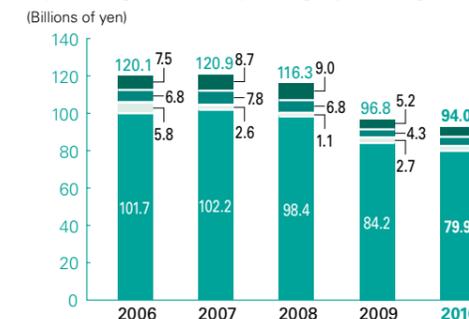


* Figures are rounded to the nearest whole number or decimal.
 * Figures in the graph represent net sales to outside customers only.
 * Operating income does not include eliminations for intersegment transactions.
 * Business segments were changed during the year ended March 2008. Figures for the year ended March 2007 have been reclassified to reflect the changes.

Net Sales by Geographic Segment



Operating Income by Geographic Segment



* Figures are rounded to the nearest whole number or decimal.
 * Figures in the graph represent net sales to outside customers only.
 * Operating income does not include eliminations for intersegment transactions.
 * Countries and regions are classified according to geographic proximity.
 * Principal countries or regions other than Japan: Asia / Oceania (countries of East and Southeast Asia and Oceania); America (U.S., Canada, Mexico); Europe (countries of Europe, South Africa).

Business Overview

The Kao Group supplies high-value-added products to consumers through its Beauty Care, Human Health Care, and Fabric and Home Care businesses and to customers in a variety of industries through its Chemical business.

Consumer Products Business

Beauty Care Business



The Kao Group supplies products ranging from prestige cosmetics products to skin care and body care products such as facial and body washes and hair care products such as shampoos and conditioners in order to help each and every consumer achieve the beauty he or she desires with state-of-the-art technologies.

Prestige cosmetics



Counseling cosmetics, self-selection cosmetics, etc.

Principal Products

Premium skin care products



Soaps, facial cleansers, body cleansers, etc.

Premium hair care products



Shampoos, conditioners, hair styling agents, hair coloring agents, etc.

Human Health Care Business



The Kao Group supplies products to help consumers lead comfortable, healthy lives, including sanitary products created by using proprietary technologies, functional health foods and beverages that propose new value, and oral care products and bath additives.

Food and beverage products



Beverages, etc.

Sanitary products



Sanitary napkins, baby diapers, etc.

Personal health products



Bath additives, oral care products, men's products, etc.

Fabric and Home Care Business



The Kao Group supplies products designed for maximum quality, functionality, and ease of use in order to help consumers realize a clean, comfortable lifestyle, including fabric care products such as laundry detergents and fabric treatments as well as home care products such as dishwashing detergents and kitchen cleaning products.

Fabric care products



Laundry detergents, fabric treatments, etc.

Home care products



Kitchen cleaning products, house cleaning products, paper cleaning products, commercial-use products, etc.

Chemical Business

Chemical Business



The Kao Group supplies customers worldwide with a range of chemical products designed to meet the diverse needs of global industry, including oleo chemicals manufactured from natural oil and fat raw materials, surfactants, toners and toner binders, and fragrances and aroma chemicals.

Oleo chemicals



Fatty alcohols, fatty amines, fatty acids, glycerine, commercial-use edible fats and oils, etc.

Performance chemicals



Surfactants, plastics additives, superplasticizers for concrete admixtures, etc.

Specialty chemicals



Toner and toner binder for copiers and printers, ink and colorants for inkjet printers, fragrances and aroma chemicals, etc.

Message from the President and CEO



Motoki Ozaki
President and Chief Executive Officer

Positioning Ecology at the Core of Management, Striving for “the Wholehearted Satisfaction and Enrichment of the Lives of People Globally”

Celebrating the 120th Anniversary of the Introduction of *Kao Sekken*

This year, Kao celebrates the 120th anniversary of the introduction of *Kao Sekken* (*Kao Soap*), a milestone in our corporate history. Founder Tomiro Nagase launched the product in 1890 out of a desire to supply to Japanese citizens a soap that is high in quality, reasonably priced, and domestically produced.

Through more than one century of business activities, Kao has earned a high level of support and trust from a large base of consumers and customers in Japan, Asia, Europe, and North America in a broad range of fields encompassing Beauty Care, Human Health Care, Fabric and Home Care, and Chemical businesses.

At the Kao Group, we have taken as our mission striving for “the wholehearted satisfaction and enrichment of the lives of people globally through *Yoki-Monozukuri*,” a goal that is put forth in the Kao Way, our corporate philosophy.

To fulfill this mission, we are striving to develop products that precisely accommodate changes in consumers’ values and product needs over time as well as to contribute to the achievement of a sustainable society in accordance with a basic stance founded on the twin principles of *Consumer Driven* and *Genba-ism*.

Economic and Market Conditions and the Kao Group’s Business Activities

An assessment of recent conditions in the global economy and society indicates that a full recovery from the economic downturn triggered by the bankruptcy of Lehman Brothers remains elusive, and the business environment in which the Kao Group operates continues to be an extremely challenging one.

Last year (fiscal 2009), we continuously saw falling product unit prices—in short, a deflationary trend—in the domestic household and personal care market, our principal field of business, while the cosmetics market continues to be in a state of contraction as dramatic changes take place in how consumers view and purchase products.

The Kao Group has responded to the challenges posed by this business environment with a series of all-out efforts, including to strengthen the development, introduction, marketing, and sale of high-value-added products, and to pursue Total Cost Reduction (TCR) measures. As a result, although consolidated business performance during fiscal 2009 did not reach the level of the previous year, it exceeded the revised forecast we announced last fall as various measures put in place starting during the second half took effect, allowing shareholder returns by increasing dividends for the 20th consecutive fiscal year.



Kao announced a new corporate identity and corporate message in June 2009.



Attack Neo resonated strongly with consumers (Japan).

We believe that the most appropriate measures we can take as a manufacturer in this challenging environment are, at root, founded on a single goal: development of high-value-added products.

While it is true that the market is experiencing a deflationary trend, recent consumers have developed a critical eye when it comes to product selection: they are in no mood to purchase products they do not need or that have no value, regardless of how inexpensive they may be. Conversely, this trend can be taken as indicating a willingness on the part of consumers to spend money on products they believe confer new value or enrich their lifestyle, even if they are somewhat more expensive.

As a manufacturing company, we believe that it is critical for us to create new values that overcome the barrier of price.

Medium-to-Long-term Direction and Growth Strategy

Next, I would like to address the Kao Group's direction over the medium-to-long-term as well as our new growth strategy.

As we develop this new growth strategy, we must be aware of the fundamental social and economic changes that are currently occurring on a global scale. I believe that the changes likely to have the greatest effect on the Kao Group can be distilled into three megatrends.

The first is a shift in the center of the economy. We expect

to see a transition from an economy centered on developed nations to one in which the BRICs economies—Brazil, Russia, India, China, and other emerging countries—realize rapid economic growth and form enormous new markets.

The second is an increase in interest in environmental issues. We expect to see a growing level of environmental awareness due to factors such as apprehension concerning global warming and resource depletion. It is critical that we address these issues in our product development efforts.

The third is the emergence of new consumers. The rapid development of digital media such as the Internet is leading growing numbers of consumers to depend on such means. At the same time, new groups of consumers are coming together in developed countries to form large target markets, a process we can see at work as the elderly population form a new consumer segment.

These three megatrends describe major issues that the Kao Group must address. At the same time, dramatic changes such as these can also be seen as a major opportunity in that they afford the Group a chance to explore new possibilities and pursue new accomplishments. I strongly believe that, now more than ever, we are witnessing the dawning of an age in which we must become a global company with a stronger presence worldwide.

Having taken a hard look at these changes, we will implement two new strategies, both formulated to drive our



Laurier has garnered broad support as a pan-Asian brand (Singapore).



Sales coordinators propose sales area designs that make it easy for consumers to choose and purchase products to Kao's business partners (Thailand).

basic stance over the medium-to-long-term: achieving global growth and shifting to ecology-centered management.

In an effort to prepare the Group to achieve these goals, we revised our corporate identity (CI) and adopted "KAO" as a new English-language logo for use worldwide in June 2009. We have also embraced "Enriching lives, in harmony with nature" as our new corporate message and clarified what the shift to ecology-centered management means for our business stance by announcing the Kao Environmental Statement, which outlines a philosophy founded on the theme of "eco together."

Achieving Global Growth

Next, I would like to describe our strategy of achieving global growth in more specific terms. For the last five years, the Kao Group has been pursuing an initiative known as the integration of business operations in Asia, including Japan, to bring the advantages of our business and function matrix management approach to countries throughout Asia. Simultaneously the Group's most distinguishing characteristic and its greatest strength, this approach rests on the three pillars of standardizing work, pursuing collaboration in work, and sharing the Kao Way.

I am pleased to be able to report that the integration of business operations in Asia, including Japan, has made steady progress thanks to the enthusiastic activities of local

and other Kao Group employees, with the result that we have seen near-double-digit growth in both sales and profits across Asia every year. Currently, we are adding brands such as *Asience*, *Essential*, *Curél*, and *Liese* to other brands already offered in Asian countries and regions, including *Attack*, *Laurier*, and *Bioré*, as part of our pan-Asian brand concept, successfully earning strong support from consumers in each of the region's target markets. Going forward, we will strive to achieve even higher growth by strategically and intensively investing management resources in a drive to further nurture and strengthen these pan-Asian brands.

We are also working to bring the experience we have gained through the integration of business operations in Asia to bear in Europe and North America, where Beauty Care is our primary business, and we plan to make full use of the strengths of the Kao Group's business and function matrix management in those markets going forward.

Next, I would like to touch on our basic approach to business strategy in the BRICs and other emerging countries, which are expected to continue to enjoy a high rate of growth. I believe that the departure point for all of our efforts must be the development of a solid understanding of the characteristics and properties of each new market, gained by taking a careful look at local consumer lifestyles and market conditions in accordance with *Consumer Driven* and *Genba-ism*, the basic stance that informs all of our



Hair care researchers gather at a global hair care conference.



Researchers verify how well the detergent performs in different types of washing machines at the washing center.

corporate activities. To that end, full-time teams are currently engaged in thorough research in each of these countries.

In terms of specific strategies, we consider China, the prototypical BRICs economy and a market where the Kao Group has been already conducting business, to be the most important region. In addition to focusing the Group's management resources on that market, we will strive to realize quick results by bringing the capabilities of business and function matrix management directly to bear in China. We will then move to apply the business model we have developed in China to other emerging countries.

Shifting to Ecology-centered Management

I would like to touch on our effort to shift to ecology-centered management, the Kao Group's second objective. Reflecting our belief that this goal should be shared and put into practice by all employees, we revised the Kao Way in April 2010 to add "contributing to the sustainability of society" to the Kao Group's core mission.

We introduced *Attack Neo*, an ultra-concentrated liquid laundry detergent that offers a high level of cleansing power despite requiring just one rinse cycle, in the summer of 2009 as the first product to embody ecology-centered management and the principles espoused in the Kao Environmental Statement. The product has received broad support as a liquid detergent that saves water, electricity,

and time from consumers seeking to save water and energy in their daily lives.

In addition to striving in however small a way, to enrich the lives of consumers and customers worldwide through an active program of business activities, we at the Kao Group are also seeking to be good corporate citizens and responsible members of society in each country and community where we do business. To make our stance on these issues clear, we have also announced our support for the United Nations Global Compact, which is dedicated to the observance of 10 principles concerning human rights, labor, and the environment.

Going forward, we are dedicated to putting our new corporate message of "Enriching lives, in harmony with nature" into practice throughout the world.

I look forward to your continued support and understanding for our corporate stance as we strive to fulfill our mission.

A handwritten signature in black ink that reads "Motoki Ozaki". The signature is written in a cursive, flowing style.

Motoki Ozaki
President and Chief Executive Officer

Concerning Our Suspension of Production and Sale of *Econa* Products

Kao Corporation would like to express our sincere apology to our valued customers and all those involved for the concern and inconvenience caused by the suspension of production and sale of *Econa* products in September 2009. The *Econa* brand, which is built on Kao's proprietary research and development expertise gained over the course of 20 years, has earned a high level of support and trust from consumers and customers since its introduction in 1999 as a line of products that can be used to prevent lifestyle-related disease and other health issues.

Reflecting our belief that product safety is the most important consideration in product development, we subjected *Econa* products to a rigorous regime of internationally authorized safety testing by research institutions in Japan and overseas prior to their launch.

In 2009, however, a European research institute found that glycidol fatty acid esters, a previously unknown category of substances, were present in cooking oil in minute quantities, triggering a discussion of the effects of the substances on the human body. An analysis by Kao revealed that the amount of the substances contained in *Econa*, although low, exceeded that of other cooking oils. So, in line with our basic principle *Consumer Driven*, we elected to temporarily suspend the production and sale of *Econa* products until we could reduce glycidol fatty acid ester content to a level at that of other cooking oils. Unfortunately, this move was received by the reaction much further-reaching than we had expected, and as a result, we inconvenienced a large number of our consumers and business partners. This incident emphasized for us the importance of regular communication about food safety. As a result, we have solicited the opinions of a broad range of external experts, consumer organizations and others in examining how best to speed the discovery of food and health risks while disseminating relevant information in a precise and timely manner.

We anticipate that the functional health food segment, where we have sought to harness the Kao Group's unique research expertise to help consumers live healthier, will become one of the core business operations of the Group and an embodiment of our social mission.

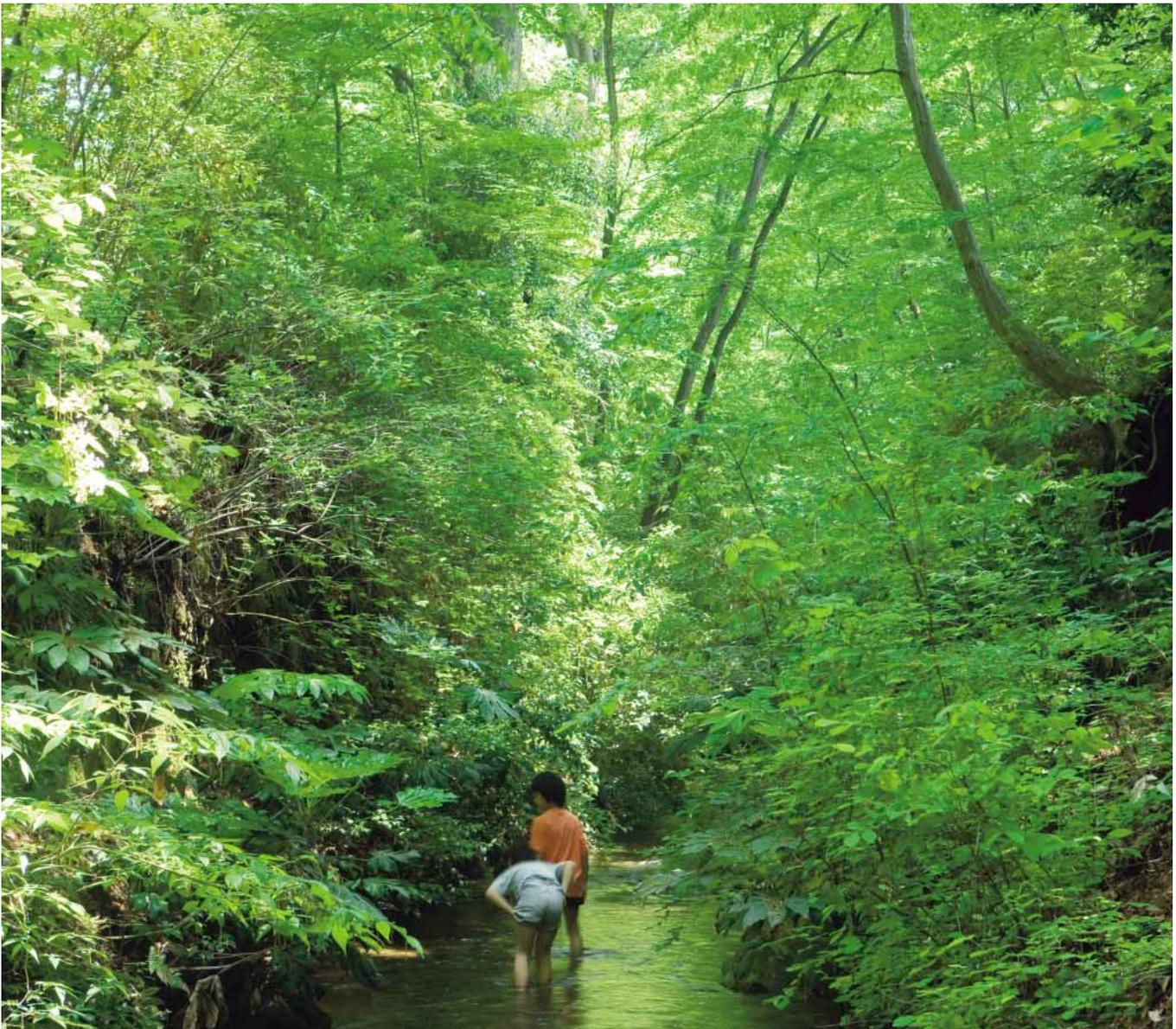
Fortunately, the *Healthya* series, a line of beverages from the functional health food segment which is the other leading product in this segment, has continued to gain the support and trust of the consumers, as last year's sales exceed the previous years' by substantial amount.

As mentioned before, we will earnestly listen to the opinions of external people, and going forward, we will be working to relaunch a functional health food, as quickly as possible by bringing the entire Group's capabilities in research and development, production, and sales to bear.

Kao Corporation

Contribute to a Sustainable Society Based on the Kao Environmental Statement

In accordance with its June 2009 Environmental Statement, the Kao Group is positioning ecology at the core of management and redoubling its commitment to undertaking corporate activities from an environmental perspective. With the need to act on global environmental issues growing more pressing, a key question for the Group as a manufacturing company is its ability to address the conservation of the global environment. This section introduces forward-looking environmental initiatives undertaken by the Kao Group in an effort to achieve a sustainable society.



Kao Environmental Statement



Kao products are designed for everyday use, in homes around the world.

That's why we utilize original Kao-developed technologies to minimize the impact they have on the environment, not just in the manufacturing process, but in the daily life of the customers who use them.

From materials procurement and manufacturing, to distribution, sales, use, and final disposal, we want to engage in "eco together" with stakeholders and consumers worldwide.

Enriching lives, in harmony with nature.

The Kao Group's Approach to Ecology-centered Management

The Kao Group provides products that are used in many households on a daily basis, and we believe we have an obligation to develop and manufacture products with as low an environmental impact as possible, in terms of not only product development, production, and manufacturing processes, but also the manner in which consumers/customers use those products. The Kao Group has a history of pursuing high-value-added manufacturing that delivers both performance improvements and a reduced environmental impact. Looking at our products from a lifecycle assessment (LCA) standpoint, CO₂ emissions* associated with raw materials procurement, manufacturing, distribution, and other processes account for about 30% of total lifecycle emissions, while CO₂ emissions during household use of those products account for about 50%. Based on a belief that we have an obligation to actively reduce this environmental impact, we have announced the Kao Environmental Statement

positioning ecology at the core of management and established 2020 medium-term objectives accordingly.

Overall CO₂ Emissions* throughout the Lifecycle of Kao Products (in Japan in fiscal 2009)

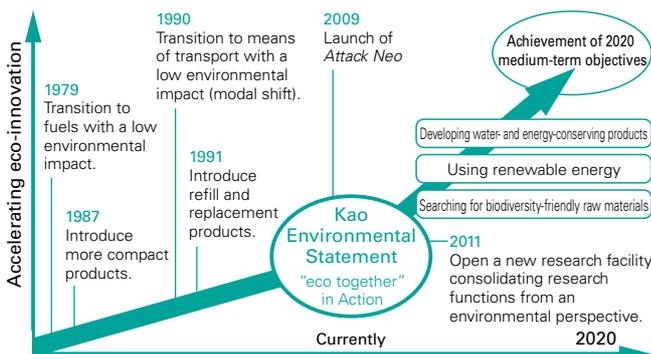


*CO₂ emissions: Calculated by Kao (excluding the use and disposal of industrial products).

Promoting Environmental Activities with All Stakeholders Employing "eco together"

Concerning the promotion of ecological management, the Kao Group has adopted "eco together" as the slogan for its Environmental Statement. The slogan refers to Kao's desire as a manufacturer of products used on a daily basis in households for the understanding and cooperation of consumers/customers using its products, to the end that the environmental impact associated with their use might be reduced. It is by working together with consumers/customers that we can achieve the goals of these "eco together" activities. At the same time, the approach seeks to build stronger partnerships with business partners involved in raw materials procurement, production, distribution, sales, and other aspects of Kao's business, as well as with society-wide environmental activities.

Kao's Approach to Environmental Activities



“eco together” in Action in the Kao Environmental Statement



With consumers/customers

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



With business partners

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



With society

Becoming proactively involved in society-wide environmental activities.

“eco together” with Consumers/Customers

About 15.7 billion cubic meters of daily life water for human needs is used each year in Japan*. Kao Group products are associated with from 10% to 20% of that water in lifestyle activities such as housekeeping, cooking, washing clothes, bathing, etc. These figures make it clear that Kao products used in the course of daily life are involved one way or another with an enormous volume of water.

At its core, “eco together” with consumers/customers consists of initiatives on the part of the Kao Group to reduce the environmental impact of these household activities by taking advantage of its technologies to propose new environmentally friendly products. Such products should allow

consumers to save money even as they help the environment, and they should make such activities easy to continue. The Kao Group is committed to actively proposing products that bring new value to consumers/customers' lives.

*According to *Water Resources in Japan 2009*, published by the Water Resources Department of the Land and Water Bureau, an agency of the Ministry of Land, Infrastructure, Transport and Tourism.

Attack Neo: First to Embody “eco together” Ideals

The first product to embody the ideals of “eco together” with consumers/customers was *Attack Neo*, an ultra-concentrated liquid laundry detergent. The product's most noteworthy feature from an environmental standpoint is its need for just one rinse cycle. Since a new cleaning ingredient known as Aqua W (Double) Riser, created using proprietary Kao technology, combines a high level of cleansing power with good rinsing characteristics that prevent it from remaining on clothing fibers, the conventional two-rinse program can be shortened to just one rinse cycle. This capability delivers significant water savings while lowering electricity usage and saving time. Furthermore, ultra-concentration technology has been employed to shrink the product's packaging to less than half the size of previous liquid detergent containers, reducing the amount of plastic used and making it easier to carry. *Attack Neo* makes it easy and fun for consumers to lead a more environmentally friendly lifestyle while providing a high level of added value.



Attack Neo: Embodying the ideals of “eco together”

“eco together” with Business Partners

The Kao Group has long worked to streamline operations in raw materials procurement, production, distribution, and sales. Through “eco together” with business partners, we are striving with the cooperation of business partners to strengthen the role of the environmental perspective in those operations.

For example, we are working to reduce environmental impacts through streamlined operations in cooperation with retailers by achieving manpower and time efficiencies and by improving loading and delivery efficiency in distribution. While the benefits of individual activities are by no means enormous, we believe the slow and steady accumulation of small successes eventually translates into big environmental improvements. We look forward to expanding our “eco together” with business partner activities so that we can further reduce environmental impacts by omitting useless waste.



Our initiatives help make Kao more environmentally friendly by streamlining operations.

“eco together” with Society

The Kao Group believes in fulfilling its corporate social responsibility through ongoing activities that allow it to contribute to the environment from a different perspective than that of its business activities. This approach lies at the root of our “eco together” with society initiative. As a company that provides products used in everyday life, Kao considers coexistence with local communities and environmental consciousness to be among its most important priorities. The Kao Group remains committed to supporting environmental conservation activities and actively pursuing environmental activities in concert with the government, industry, and other groups.

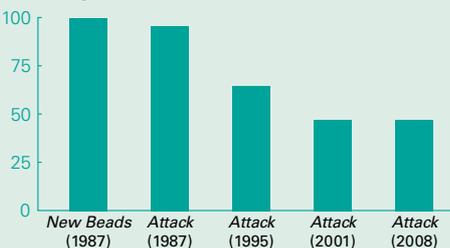
The Kao Group’s Activities of “eco together” with Society



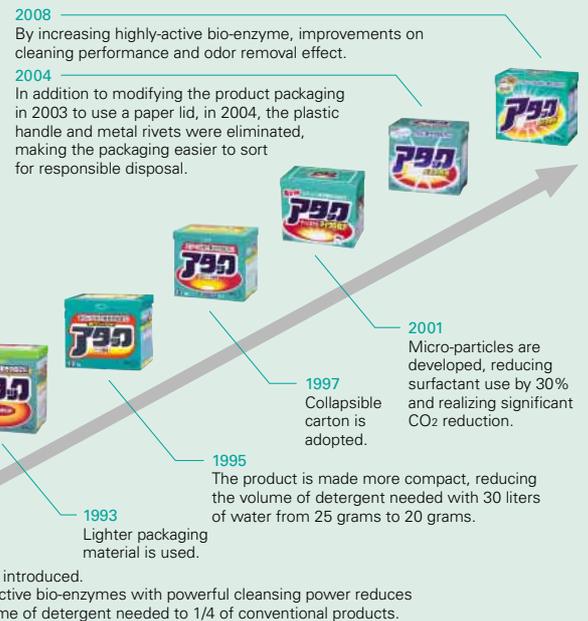
Environmental Activities Associated with Attack

In 1987, Kao launched *Attack* as the world’s first compact laundry detergent. Since then, we have reduced the various environmental impacts associated with *Attack* by making more than 20 improvements, for example by making the product more compact by increasing the cleansing power of its detergent and improving production processes. This section introduces the evolution of *Attack*, a process that is typical of the innovation that plays so large a part in the Kao Way.

Relative CO₂ emissions for one load of laundry (*According to Kao research)



New Beads, typical laundry detergent before introduction of Attack



Kao Environmental Statement 2020 Medium-term Objectives

CO₂

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

Water

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

Chemical substances

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

Biodiversity

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

*The figures represent those from fiscal year ending in March 2006

Pursuing a Variety of Activities to Reduce CO₂ Emissions

The Kao Environmental Statement calls for the Group to reduce CO₂ emissions (per unit sales) by 35% relative to fiscal 2005 by fiscal 2020. Ongoing initiatives being pursued in the Production Division in order to achieve this objective include switching from heavy oil to natural gas as an energy source and installing cogeneration systems* to ensure efficient utilization of fuel.

We are also actively pursuing other measures such as utilizing rail and ship transport, streamlining truck transport, and taking steps to conserve energy in workplace offices.

*Systems designed to produce both electricity and heat from a primary energy source such as oil or natural gas.

Development of New Environmental Products that Reduce Water Consumption

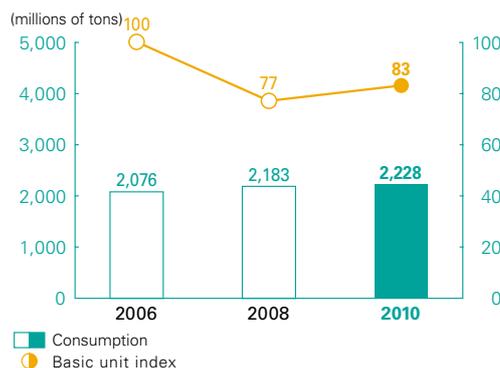
The Kao Group is working to reduce water consumption during product use (per unit sales) by 30% relative to fiscal 2005 by fiscal 2020. To achieve this objective, it will be critical for us to develop new eco-innovation products.

The Kao Group has long sought to develop environmentally conscious products in not only its Consumer Products business, but also its Chemical business, for example by using plant-based plastics and cleaners formulated with Chlorofluorocarbon substitutes. Going forward, we are committed to redoubling our efforts to develop products to follow *Attack Neo* from an environmental perspective by dedicating more resources to the development of proprietary technologies.

Consumer Product CO₂ Emissions



Water Consumption during Product Use



* The figures represent those from years ended March 31.

* The basic unit index is an index calculated after assigning the value 100 to CO₂ emissions and water consumption per net sales in the year ending in March 2006. This net sales was calculated by removing the net sales amount of Kao Customer Marketing Co., Ltd.'s Nivea Kao products from the net sales amount of Kao Corporation and Kanebo Cosmetics Inc.

* CO₂ emissions and water consumption were calculated by Kao based on data for domestic Group companies.

* CO₂ emissions does not include the amount from the use and disposal of industrial products.

* Water consumption consists of water consumed during use of consumer products.

Managing Chemical Substances in Accordance with Global Standards

As a group of companies that handle chemical substances, the Kao Group has practiced an integrated approach to chemical substance management using a proprietary Comprehensive Management System for Chemical Substances. Going forward, we are committed to redoubling our Responsible Care (RC) voluntary management activities addressing environmental and safety considerations in the chemical industry across our global operations. We are also dedicated to working to minimize the impact of chemical substances on health and the environment by 2020 in accordance with the Strategic Approach to International Chemicals Management (SAICM), an international agreement adopted at the World Summit on Sustainable Development in Johannesburg, South Africa, in 2002.

Biodiversity Initiatives

Kao Group products are produced by taking advantage of the natural bounty of a diverse variety of living organisms, for example through the use of palm and coconut oil as raw materials. The Kao Group is committed to redoubling efforts related to conserving biodiversity in such areas as raw materials procurement.

Future Initiatives to Achieve the Objectives Laid Out in the Kao Environmental Statement

Although the 2020 medium-term objectives laid out in the Kao Environmental Statement adopted by the Kao Group in 2009 target business activities in Japan, we are committed to working actively to share the Kao Environmental Statement with Group companies worldwide. Additionally, we decided to open the Eco-Technology Research Center, a new research facility intended to strengthen our research and development capabilities in next-generation environmental fields (the Center is scheduled to be fully operational in June 2011).

We are committed to building on our track record of environmentally conscious research activities to develop new technological synergies and accelerate the pace of eco-innovation research by centralizing the Group's environmental research functions at the Center.

Eco-Technology Research Center

Accelerating Eco-innovation Research by Centralizing Environmental Research Functions

In order to bring our ecology-centered management vision to bear on actual development and manufacture of products, the Kao Group decided to open a new research facility called the Eco-Technology Research Center (ETRC) at the Wakayama Complex (Wakayama city) to serve as a center of research and development in next-generation environmental technologies.

The project represents an effort to accelerate the development of next-generation eco-innovation research by centralizing the Group's environmental research functions and combining them to generate synergies. Consisting of three research facilities with a total floor space of some 23,000 square meters, the complex will be Kao's largest research facility. In addition to the central Main Research Building, the ETRC will have a Pilot Research Building, where research into scaling up product production will be performed, as well as a Plant Biomass Research Building, where plant cultivation research will be performed. The Main Research Building will feature the latest environmental facilities, including solar power generation and energy-saving heating and cooling systems. The facility will also operate a provisionally named Kao Eco-Lab Museum as an area for interaction with people (homemakers, students, business persons, etc.) where visitors can experience state-of-the-art environmental technologies. The facility will strive to communicate with all stakeholders by acting as a center for the distribution of environmental information.

We will actively work to develop technologies related to utilization of renewable raw materials such as vegetable fats, oils and next-generation environmental technologies in the fields of water, food, and green chemicals which will become the core of Kao's business.



Eco-Technology Research Center, which will conduct research and development work in next-generation environmental technologies.

Pursuing Consumer Needs and Implementing Japanese Knowledge into Pan-Asian Brands to Boost Growth in Asia

The Kao Group is pursuing the integration of business operations in Asia, including Japan to boost growth in global markets. This effort consists of adapting the full range of knowledge cultivated over the Group's many years of experience in Japan to local conditions in countries and regions across Asia in order to implement an integrated approach to its businesses in each. Key to the approach is the concept of pan-Asian brands. The Kao Group has optimized these Asian brands—brands developed specifically for the Asian market—for the area's countries and regions while unifying the underlying product concepts and benefits promised to consumers. This feature introduces the Group's activities of *Yoki-Monozukuri*, which retains the same emphasis on *Consumer Driven* operations and aggressive *Genba-ism* overseas as at home in Japan, through the development of three of the Group's pan-Asian brands.



Initiatives in Singapore

Liese Bubble Hair Color has Revitalized the Market through an Integrated Approach to Surveys, Marketing, Sales, and Distribution



Singapore's Popular Brand Liese

Liese hair styling products was launched in Singapore in November, 2007. Since then, Liese products have subsequently earned the admiration of consumers and steadily gained market share in the country, which is characterized by a high awareness of style on the part of young women and a correspondingly competitive marketplace. When Liese Bubble Hair Color debuted in Singapore in July 2009 as a new product intended to revitalize the entire hair color market, most women at that time were in the habit of having their hair dyed at hair salons, and the market for home-use coloring agents was stagnating. The Group's decision to tap the well-loved Liese brand to launch a foam hair color product incorporating new Japanese technology is part of a strategy to boost the brand's value with a selection of styling and hair coloring agent products.

A Revolutionary New Product that Dyes Using Foam

Foam hair color is a revolutionary hair coloring agent whose development was made possible by the Kao Group's comprehensive consumer research and technological capabilities. In Japan, the same line of products is sold under the Prettia and Blauné brands. It is distinguished by its use of foam that does not drip; the user works the foam, which is engineered to be easily spread for complete coverage, into the hair to start the dyeing process. In the course of developing the new product, the Group conducted user tests of more than 1,000 monitors of varying ages, hair characteristics, and hair lengths. In addition to the development of the product itself, the question of how to provide consumers with information about the product proved to be a particularly challenging aspect. How best to ensure that consumers would properly use foam hair color, a completely new product? Writers had to start from square one as they worked to compile a set of instructions describing how to use the product safely and effectively. A series of monitor tests and revisions finally yielded instructions that communicate information about the product accurately. In Japan, consumers embraced the ability to dye their hair easily and evenly, so the product has become extremely popular.

History of the Kao Group's Consumer Products Business in Asia

Since launching its effort to enter worldwide markets with the production and sale of powder shampoo in Thailand and Taiwan in 1964, the Kao Group has developed its businesses with a focus on Asia. Today, the Group's businesses in Asia offer products in areas ranging from soap and detergent to hair care, skin care, and sanitary product.



Communicating the Appeal of Foam Hair Color in Singapore

Since foam hair color had been embraced by so many Japanese consumers, the Group set out under the assumption that the product would be accepted by other Asians. Based on that hypothesis, researchers commenced a series of detailed surveys of consumer lifestyles and habits in Singapore. As in Japan, they focused on how to accurately communicate product features. For example, differences in climate, customs, and values between the two countries made it quite impossible to accurately communicate the desired information by simply translating the Japanese instructions into local languages. The development team repeatedly visited consumers' homes to meticulously collect consumer survey data in an effort to identify how Singaporean consumers would read the instructions, how they would use the product, what sort of mistakes they would make in doing so, and how the instructions could be revised to preclude those mistakes. Initially, monitors often exhibited confusion concerning how much product to use and how to lather it up. However, by improving and making the manual easier to understand and as they gained the ability to use it skillfully, most consumers were satisfied with the quality of the resulting finish.



Keeping in mind the differences of customs and values, data was collected firsthand by visiting consumers' homes.

The team also conducted a significant amount of research in the course of considering "catch copy" for product packaging and TV commercials. This process led to various adjustments, including emphasizing the product's hair coloring function so that consumers would not confuse it with shampoo and leaving parts of Japanese labeling on the package on purpose to cater to young Singaporean women's sensitivity to Japanese fashion and trends.



Analyzing the results from the consumer survey data, the marketers review how to showcase the product for packages and TV commercials.

Actively Promoting Product Features in Store Promotions

The particularly important key in the *Liese Bubble Hair Color* sales strategy was an integrated approach to promotional activities in stores on the part of marketing and sales divisions as well as distribution partners. Since the product had already been well received during preliminary discussions, staff wasted no time after the product launch in developing appealing sales displays and actively introducing the product to customers. In addition to communicating how the product should be used, promoters in stores gave demonstrations, explained application procedures and illustrated results in an easy-to-understand manner, for example by using colored hair samples and installing displays and video monitors. The Group also incorporated TV commercials into store displays.



Focusing on creating a store display that best brings out the products' appeal, together with our sales distributors.

“By introducing a product with new appeal, we were able to revitalize the entire hair care sales floor, receiving high praise from our sales distributors.” Assistant Brand manager Chong Hua Min observed. Product group manager Christabel Low noted, “Having rolled out the product together with a number of styling agents, we can now provide a total solution for hair styling. At the same time, we have broadened the scope of the *Liese* brand.” Since the launch, the brand has been selling well as users’ favorable impressions spread by word of mouth, making it clear that well-thought-out communication with consumers has been a critical part of the effort to develop this product and bring it to market.

Leading the Way for New Markets to Revitalize the Market

By proposing an unprecedented product that allows consumers to dye their hair easily with excellent results and developing a new demographic of consumers who until now had turned to salons to dye their hair, the Kao Group has revitalized the market with *Liese Bubble Hair Color*. Reacting to this success, the global distribution chains in Singapore are pressing the Group to sell and expand into other countries and regions.

Moving forward, the Kao Group is further committed to bringing *Liese Bubble Hair Color* to countries throughout Asia as a brand that provides new value to consumers.



Hair care brand representatives from group companies in Asia share and discuss each other’s experiences and future business strategies at the Asian hair care meeting.

Kao ECHO System

Building an Organization Capable of Responding Immediately to Inquiries

The Kao ECHO System, a consumer communication system, at the Group’s Consumer Communication Center is responsible for adding many inquiries and comments received daily from consumers to a master database and bringing such information to serve for further *Yoki-Monozukuri*. Since its introduction in 1978, the Kao ECHO System has allowed consumers to use Kao products with peace of mind by providing an invaluable link between the company and its consumers. The Group currently receives some 145,000 inquiries from consumers in Japan for one year (as of fiscal 2009). Each inquiry is entered into the Kao ECHO System immediately and checked carefully to verify whether it involves a product quality issue. Aggregated consumer inquiry and feedback data is then utilized to improve the Group products, including aspects such as performance, container ease of use, labeling, and design.

This approach has also been embraced by the Kao Group’s overseas companies. A global ECHO System has been in operation since 2009, allowing consumer communication information from the Group’s companies in Asia to be shared among relevant departments in real time to be utilized further in the Group’s *Yoki-Monozukuri*. As the Group prepared to launch *Liese Bubble Hair Color* as its first hair coloring agent in Singapore, staff worked to anticipate likely consumer inquiries from every possible angle. Referring to hair coloring agent inquiries received in Japan, staff sought to ensure their ability to respond to consumers’ questions and inquiries with precision and speed by publishing product instructions and FAQs on the website and holding study sessions with participation by consumer communication staff from Japan.

The effectiveness of this effort is reflected in the general absence of consumer complaints following the product launch, despite higher-than-expected sales. Ultimately, these initiatives reflect a natural outgrowth of *Consumer Driven* of the Principles of the Kao Way and they will play the same fundamental role when the Kao Group brings product to multiple countries as a pan-Asian brand.



Responding quickly and accurately to consumer inquiries so that they may use our products with a peace of mind at Kao (Singapore) Private Ltd.

Initiatives in China

Sales of *Laurier* Continue to Grow, a Product Lineup that Meets Consumer Needs



Consumer Differences in Different Areas

According to factual surveys on the use of sanitary napkins conducted by the Kao Group, the manner in which consumers use these products varies by region. For example, women in China, Hong Kong, Taiwan, and Singapore prefer thin-type products, and a high percentage



A marketing meeting where participants conduct a thorough search for consumer needs based on factual surveys.

of the population alternates between different products for daytime and nighttime use. By contrast, women in Thailand, Malaysia, Indonesia, and Vietnam, with the exception of those living in urban areas, generally prefer thick-type products, and only a relatively small percentage of the population alternates between different products for daytime and nighttime use. The Kao Group is working to develop its product lines to meet the needs of consumers in individual countries and regions based on surveys such as these.

Currently, sales of sanitary napkins are growing steadily in Asian markets, particularly in China, which is enjoying a high rate of economic development. In particular, *Laurier Super Slim Guard*, a high-value-added thin sanitary napkin product, is posting double-digit growth and has become the driving force behind the expansion of our *Laurier* business in Asia.

High Demand for Thin-type Products in China

The Kao Group introduced *Laurier* to China for the first time in November 1996. Since that time, sales in China, which

continues to develop rapidly, have grown steadily along with increases in women's participation in society, the female employment rate, and awareness of hygiene.

According to a survey on consumer awareness conducted when *Laurier Super Slim Guard* was introduced in 2004, thinness was the most emphasized feature following the basic functionality of absorbency and peace of mind. Survey of monitors also revealed a widespread preference for thin-type products as long as there was no concern about absorbing performance. In short, we identified latent needs suggesting that a large number of consumers would choose a higher-added-value thin-type product as long as we could communicate its features as being highly absorbent despite a thin design. These results were obtained against a backdrop of increasing popularity for thin-type designs in light of a desire on the part of women to be comfortable, active, and stylish, even during their menstrual cycle.



Multiple interviews with local consumers to solicit their opinions.

Directly Promoting the Product's Benefits

Our first area of emphasis in promoting the product's features was its name. We conducted numerous interviews with the women who would comprise its target market as part of a thorough search for the expression that would best communicate the product concept. The result of this process was the name “零触感特薄,” denoting the comfort of *Super Slim Guard* thanks to its extra-thin design and superior absorbency in Chinese. We also focused closely on the product packaging to ensure that a single glance at the product name and associated catch copy would give consumers an immediate understanding of its features.

In addition, we devoted considerable resources to promotional activities at retailers. In order to let consumers experience the product's features, we enlisted the cooperation of local distribution chains to stage demonstrations in large stores. This involved nurturing the development of promoters, who play an important role in our sales strategy. By communicating the importance of their role through workshops including product explanations and demonstrations and having them put what they

learned into practice in the field, we stimulated consumer needs, leading to a gradual expansion of market share.

Although *Laurier* sales activities in China are currently focused on coastal areas, which are experiencing rapid economic development, we are committed to becoming the brand most trusted and supported by Chinese consumers as we actively expand the area in which the product is sold.



A demonstration at a retailer to let consumers experience the product's excellent absorbency for themselves.

Total Supply Chain Management

Working to Achieve Total Optimization from a Global Perspective

The Kao Group is pursuing total supply chain management, which seeks to achieve total optimization through a comprehensive approach to the entire series of business operations extending from raw and packaging materials procurement to production, distribution, and sales, from a global perspective. In particular, the supply chain for sanitary napkins, which requires large manufacturing facilities, is called upon to operate efficiently by supplying many kinds of products while maintaining optimal inventory levels and avoiding shortages.

For example, Kao sanitary napkins are sold in nine countries and regions. In Japan, China, and Thailand, where key factories are located, we work to optimize the items produced as well as production volumes and timing by understanding demand projections from each country, with a focus on the pan-Asian brand *Laurier*. To further increase the precision of demand projections, we also gather information on a daily basis about sales plans such as unique promotional campaigns from each country. Factors that may result in changes in timing, volume, and other aspects of the production are shared with production plants in an effort to reduce product shortages and inventory.



Laurier production line in China

Going forward, we are committed to meeting the needs of consumers we serve by building a total supply chain that is competitive in terms of quality, cost, and speed.

Initiatives in Thailand and Indonesia

Attack Easy was Developed through In-depth Field Surveys to Become Widely Popular among Local Consumers



Making it Easier to Hand-wash Laundry

The Kao Group began working to develop a new laundry detergent in December 2002 to increase its market share in the laundry detergent category in Thailand. At that time, washing machines were penetrating mainly into urban areas in Thailand, but many households in the suburbs still washed clothes by hand. Even among the households with washing machines, many of them washed some portion of clothes by hand for some reasons. Facing this situation, we asked ourselves, “What kind of detergent is needed by Thai consumers who spend enormous amounts of time and energy doing the laundry by hand?” To develop a new laundry detergent to meet the needs of the consumers who hand-wash laundry, the Kao Group launched a project to understand Thai consumers' actual habits and practices through in-depth surveys conducted by exclusive members.

Project members comprising of marketers, product developers, and researchers went to Thailand to live for a year where they conducted exhaustive field surveys to understand consumers' actual habits and practices, visiting more than 400

households. The survey results revealed that doing the laundry was laborious housework because many households had a large number of family members, and hand-washing laundry was popular in Thailand. The team struggled for a solution to make hand-washing laundry easier and simpler. The team came up with a concept, reducing the burden of hand-washing laundry, as a new key product development point through various surveys into the way of hand-washing and rinsing, the water quality, the type of dirt on clothes, and so on. The research began immediately at the Kao research laboratory in Japan to generate a new value that could achieve both slipperiness between clothes and detergency at the same time for hand-washing. The Kao Group developed and tested a number of prototypes, continued to conduct product tests with those prototypes and then developed a detergent that contained a new polymer that was able to give a “slippery” feel to hands during hand-washing. The detergent could reduce friction between clothes, so hand-washing became easier. The team members received strong responses from the consumers cooperating in the product test, who unanimously agreed that the new detergent made hand-washing easier.

Appealing Product Features in a User-friendly Way

The new laundry detergent *Attack Easy* was launched in January 2006, three years after the project had started. *Attack Easy* was highly accepted by consumers because of its original distinctive product features such as unique “slippery” feel to reduce labor in hand-washing, high detergency to remove dirt easily and quickly, and ease with which clothes could be rinsed. The Kao Group held a large-scale launching event for *Attack*



TV commercial at launch time appealed the product feature in an empathetic way. It made consumers feel like they can do laundry with what seems like the power of 10 people.

Easy. Also a TV commercial campaign, which communicated the product feature in a fun and easy-to-understand way, was implemented, and sales activities were executed to meet the target and consumer needs, such as shop front demonstrations in which consumers could feel the product features by actually using the product and the well-calculated product distribution from large scale supermarkets to small local stores. *Attack Easy* is hitting over 10% market share in Thailand and has become a popular brand among many consumers, permeating into their daily lives.



Consumers accepted the product feature with the unique “slippery” feel that requires less strength when hand-washing laundry.

Yoki-Monozukuri Throughout Asia

Following the success in Thailand, the Kao Group launched *Attack Easy* in Indonesia in 2007. Indonesian consumers also accepted *Attack Easy* because the Kao Group added one more

value, which was to make doing the laundry “with a brush” easier, reflecting on the local laundry habits of Indonesia. Now the Kao Group is working to enhance its product lineup to better meet the consumer needs such as launching small size sachets for consumers who want an affordable yet effective product for laundry, as well as pursuing product development from the viewpoint of consumers thoroughly.



The Kao Group offers smaller size products to better meet the consumer needs. The photo was taken at a bazaar in Indonesia.

Attack Easy

Developing a New, Labor-saving Polymer

Based on the results of the field survey in Thailand, the *Attack Easy* research and development team set about developing a new polymer at Kao’s Wakayama research laboratories.

The most important characteristic in order to deliver the “slippery” feel that would let consumers wash laundry by hand with less effort was a reduced friction. Through its research, the team developed a water-soluble superhigh-molecular-weight polymer to serve as a new “slippery” base. Members conducted a series of tests to verify the concentration of content of the new polymer that would allow it to best manifest its properties, eventually leading to the birth of a new hand-washing detergent. When the team measured the amount of energy consumed in doing the laundry, they found that they had achieved a reduction of about 27%, from 94 kcal/hr with conventional detergents to 69 kcal/hr with the new detergent.

By offering a combination of basic performance in terms of dirt



Researchers at the laboratory that support the Kao Group’s product development and manufacturing.

removal and fragrance along with new value in the form of easier hand-washing. *Attack Easy* has grown into a brand that is well loved by a broad range of Thai and Indonesian consumers.

Kao and Kanebo Cosmetics Develop New ADVAN UV Barrier Technology Using a Combination of Proprietary Technologies



Technology Harnesses Synergies from both Companies' Fundamental Technologies

Since Kanebo Cosmetics joined the Kao Group in January 2006, the Synergy Committee's nine subcommittees have been working to realize various synergies. In the Research and Development divisions, a working group has been established to develop high-value-added products by utilizing both companies' seeds and fundamental technologies. The new ultraviolet (UV) barrier technology was created as a result of these initiatives, and it is being used in both Kao and Kanebo Cosmetics products.

Consumer Research Reveals an Increasing Need for UV Care

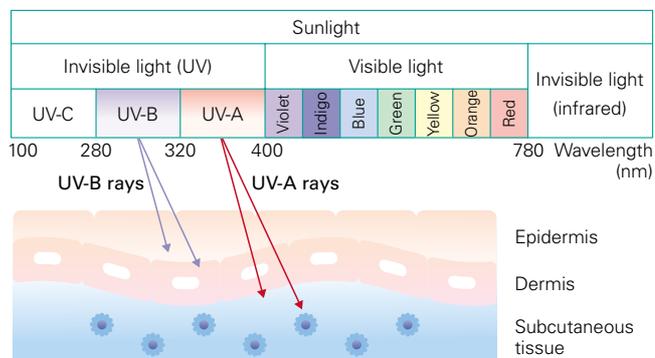
Consumer research conducted by the Kao Group has revealed increasing use of products designed to provide recent UV care, not only during the summer months, when UV rays are most intense, but also during the fall and winter. Departing from the traditional utilization of such products to prevent sunburn while playing sports and enjoying leisure activities, this new use of UV care products stems from an increasingly strong awareness of the need to prevent dryness and spotting caused by UV rays. In short, there is a growing need for emulsions, creams, and other products for year-round use as an important component of consumers' skin care regimen.

Moreover, recent research has made it clear that harmful

effects associated with UV rays include not only sunburns, which are immediately visible, but also aging of the skin in the form of spotting, wrinkles, and reduced elasticity as damage gradually accumulates inside the skin over time. UV rays with long wavelengths, known as UV-A, are the principal cause of such damage. Compared to the short-term effects of UV-B on the skin, the effects of UV-A are not immediately apparent, but rather consist of damage to the dermis and other tissues deep within the skin over extended periods of time, resulting in the loss of the skin's beauty before the individual even realizes what is occurring.

ADVAN (anti-damaging uv-A network) UV barrier technology for preventing damage deep within the skin, which was developed jointly by Kao and Kanebo Cosmetics, increases consumer satisfaction with skin care by both effectively protecting against UV-A rays and providing a high level of transparency and a smooth, comfortable feel when applied to the skin.

Wavelengths of Sunlight and Penetration into the Skin



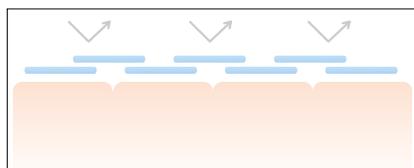
ADVAN, a Completely New UV Protection Agent Created by Integrating Technologies

Powder-based UV protection agents such as zinc oxide and titanium oxide are typically used in UV care products. While these substances have certain advantages, for example a tendency to provide a smoother feel without greasiness, the powder particles have a tendency to readily aggregate, resulting in a white appearance to the skin on application, especially when the product contains high concentrations of the agents. To overcome this shortcoming, Kao's own fine-particle UV protection powder technology and Kanebo Cosmetics' fine-particle surface processing technology

were integrated to develop a completely new ultraviolet protection powder known as Surface-Treated Flake Zinc Oxide. Kao successfully reduced by 20% the thickness of this proprietary flake zinc oxide, which was developed based on shape control technology and which offers a high level of UV-A protection for the skin. Kanebo Cosmetics utilized a proprietary surface processing method to efficiently prepare the surface of individual particles. In addition to the benefit of uniform application to the skin, this new UV protection powder offers approximately 1.6 times the UV-A protection of previous products. The companies also made dramatic improvements to the level of transparency offered by the formulation as they successfully developed a UV care product that is pleasant to use and that makes the skin less likely to turn white upon application. Currently, ADVAN is being utilized in brands such as *Kao Sofina* and *Kanebo Allie*.

Going forward, the Kao Group is committed to providing new value to all consumers by further harnessing synergies arising from the combination of its innovative technologies.

ADVAN Illustration



This new flake-shaped UV protection powder aligns itself uniformly on the skin to form a thin coat, offering a high level of transparency along with excellent UV protection.

Intellectual Property Initiatives

The Kao Group secures intellectual property rights, including patent rights, utility model rights, design rights, and trademark rights, covering new technologies, product concepts, products and brands, which are useful in its business activities and research and development. The Intellectual Property Center, established within the Research and Development division, pursues strategic patent filing programs in a wide range of fields. Multiple patents are pending covering the ADVAN technology introduced herein.

During new product development, researchers and intellectual property specialists exchange information continuously, starting from the initial design stage, both to better examine the optimal means by which to secure rights and to exercise a high level of care so that other companies' rights are not infringed. Based on these activities, there is recognition among employees that intellectual property rights such as patents are important assets capable of increasing the value of the company and serve as the driving force behind our technology strategy.

Other Topics

Kao Receives 33rd Kinoshita Prize for Development of New Refill Packaging for *Curél*

In May 2009, the development of refill packaging for Kao's *Curél* brand of shampoo and conditioner for sensitive skin was recognized with the Japan Packaging Institute's Kinoshita Prize in Research and Development. The new *Curél* refill packaging, which is produced using bottle manufacturing techniques, offers the same level of environmental friendliness as a film standing pouch while incorporating exceptional ease of use from the standpoint of universal design, specifically in the form of such enhancements as a pull-ring design that can be easily opened with wet hands and a shape that allows the consumer to refill the product with just one hand.

The bottle-like shape of the packaging helps to prevent spilling, a common problem with a conventional refill pouch. While ease of use was the main target in this development, great efforts were employed to create ultra-thin resin, keeping the amount of



resin required for production at the same level as the conventional refill pouch. The *Curél* refill packaging now uses 76% less than the shampoo or conditioner bottle, leaving 95% less in volume to disposal of after use.

Kao Receives the 9th Green & Sustainable Chemistry Award for Subcritical Water Applied Technology

In March 2010, Kao received the 9th Green & Sustainable Chemistry Award (GSC Award) from the Minister of Economy, Trade and Industry for its "Industrialization of surfactant production process synthesized with subcritical water."

The GSC Award is presented by the Green & Sustainable Chemistry Network* in recognition of technologies that contribute to a sustainable society. In this case, the technology recognized by the award is a process for synthesizing surfactants using subcritical high-temperature, high-pressure water. Through the use of this technology, the reaction time can be shortened from nine hours to three minutes, and the reaction vessel can be reduced to 1/260 of the conventional size. Additionally, the process uses no catalysts and organic solvents, allowing water used in the reaction to be easily recycled and dramatically reducing waste volume. The Wakayama Plant has been using the process since 2005, and the surfactants manufactured by it are used in a wide range of products including dishwashing detergent and shampoo.

*The Green & Sustainable Chemistry Network is a private organization founded by academic societies, groups, and national research institutes in the field of chemistry to provide effective and robust support in Japan for global GSC activities conceived to contribute to the realization of a sustainable society through innovation in chemical technologies.

Kao Earthwatch Teachers' Fellowship Seeks to Create an Environment and Develop Human Resources to Nurture the Next Generation



Conveying the Importance of the Global Environment from Teachers to Children

Reflecting its belief that support for the children of the next generation is especially important in order to realize a sustainable society, the Kao Group pursues corporate citizenship activities around the theme of "Creating an Environment and Developing Human Resources to Nurture the Next Generation." The Kao Earthwatch Teachers' Fellowship is one of the activities that make up Kao's unique corporate citizenship program in accordance with this philosophy. The Fellowship provides elementary and middle school teachers, who enjoy a significant amount of influence with the children they teach, an opportunity to participate as volunteers in overseas field work associated with biodiversity projects organized by Earthwatch, an international Environmental NGO. The program is unique in its targeting of elementary and middle school teachers, the group responsible for environmental education. As they interact with overseas researchers and volunteers, teachers gain experiences that would be impossible to gain in their day-to-day work as educators or in their daily lives. The program is founded on the expectation that the teachers will then share those invaluable experiences and their sense of joy with children and bring them to bear in the classroom.



The program also facilitates international exchange with overseas participants. Pictured on the left is the "Echidnas and Goannas of Kangaroo Island" project undertaken in fiscal 2006.

Activities with Broad Influence

The Kao Earthwatch Teachers' Fellowship has sent 69 teachers to participate in a total of 35 projects since 2003, including "Butterflies of Vietnam," "New York City Wildlife," and "Saving Kenya's Black Rhinos." Participating teachers bring back their experiences and joy to their students and communities in various ways.

Here are some comments from teachers after the activities.

- "We learned the techniques of scientific research and put them into practice in science classes."
- "We brought our experiences to bear in the classroom and reported the results to the Japanese Society of Environmental Education."
- "By staying in touch with other teachers from other countries after the program and facilitating international exchange between the students, we were able to establish sister-school relationships."

While the results of deliberate, slow-paced activities such as this type of support for environmental education may not be immediately apparent, we are committed over the long term to continuing and enhancing Kao Earthwatch Teachers' Fellowship. This important program contributes to the creation of an Environment and the Development of Human Resources to Nurture the Next Generation.



Children conducting a study of plants using techniques from Kao Earthwatch Teachers' Fellowship.

In Participants' Own Words

Ms. Yuko Shimizu

Teacher, Fujisawa City Matano Elementary School, Kanagawa Prefecture
(At the time of her participation in the program, Ms. Shimizu was a teacher at Fujisawa City Hamami Elementary School, also located in Kanagawa Prefecture.)



I participated in the "Climate Change and Caterpillars in Arizona" project in Arizona, the U.S., during the 2008 academic year. I applied for the project because we were covering topics such as crop cultivation that are related to dietary education and the environment in class. I was also interested in working insects like caterpillars into our studies since the students are familiar with them. During the project, I collected caterpillars and plants eaten by caterpillars and investigated information such as their species and whether they had any parasites. The research has been used in farming methods designed to reduce pesticide use in banana orchards by introducing bee and fly larvae to caterpillars as parasites in order to control pest infestation.

As I talked about the connections between insects, small animals, and agricultural crops after I returned to Japan, I saw an increase in the number of children who were interested in cultivation activities and observing insects. Some of the children described their wish to study to become entomologists, and others went so far as to start their own garden in one corner of our schoolyard. Children are so receptive to new ideas! I have gained new hope for the future through Kao Earthwatch Teachers' Fellowship because I



Ms. Shimizu searching for caterpillars in the Arizona forest.

have realized that the children to whom I communicate my experiences will be able to use them to solve a variety of problems. They may even be able to solve major global problems such as environmental issues and the conservation of the natural world. I look forward to communicating the importance of a hopeful, forward-looking attitude to children in the future.

Other Topics

Supporting the Forests for the Future Project in Thailand

The Kao Group supports the Forests for the Future Project in Thailand, a tree-planting program administered jointly by the Foundation for Global Peace and Environment (FGPE) and the United Nations Environment Programme (UNEP). Since its inception in Tibet in 2001, the Forests for the Future Project has spread to various countries worldwide.

Activities in Thailand began in 2007 to commemorate the 120th Anniversary of Japan-Thailand Diplomatic Relations. The program plans to plant 500,000 trees in the country over a five-year period. With the proportion of forested land in Thailand having plummeted to less than 20% of the country's total area, Japanese and Thai residents and children are working together to promote tree-planting activities to address what is seen as a serious situation.



Volunteers at a tree-planting event

More than 80 volunteers consisting of employees of Kao Group companies in Thailand and their families participated in a tree-planting event held at Sirindhorn International Environmental Park on September 12, 2009.

Kao Creating Forests for Everyone Program

Since 2000, we have worked with the Urban Green Space Development Foundation to conduct a unique afforestation initiative known as the Kao Creating Forests for Everyone program.

Conceived in order to create a lush, green environment around citizens' communities, the program provides support for a variety of activities geared toward protecting and cultivating local trees and nature, including by protecting and planting trees, mowing grass, building ponds, installing nesting boxes for birds, and nurturing the growth of the large trees that so often symbolize their local area. A total of 150,000 citizens have participated in the program so far, planting some 98,000 seedlings and working to conserve a total forested area of about 2,731 hectares.

In 2005, we launched the "Supporters of Kao Creating Forests for Everyone" Project. College students with a high level of interest in environmental conservation apply and are selected to visit some of the groups supported by the Creating Forests for Everyone program, where they participate in their host group's activities and write an article about supporting the group for publication online, thereby helping to spread awareness of the environmental preservation



Activities by an organization supported by Kao

activities throughout society. Kao is committed to continuing the Creating Forests for Everyone program in order to ensure our ability to hand down a lush natural environment to the next generation.

Principal Business Activities during Fiscal 2009

April 2009

Goldwell Introduces New Silk Lift Lightening

KPSS-Kao Professional Salon Services GmbH introduced *Silk Lift*, a new line of lightening products designed to enhance the beauty of blond hair, under its *Goldwell* brand. The product's beauty essence ingredients protect the hair, creating a shiny and healthy blond look. *Silk Lift* is currently available in Europe, the U.S., and Canada.



May 2009

EG Runner Recognized with Environmental Technology Award

The technology used to develop Kao's *EG Runner* mold runner was recognized with the Japan Chemical Industry Association's Environmental Technology Award. Kao was able to effectively utilize resources and dramatically reduce waste products by using recycled paper instead of ceramics to manufacture the runners, which are used in the manufacture of moldings.



June 2009

Announcement of a New CI and the Kao Environmental Statement

The Kao Group adopted a new CI (corporate identity) and announced the Kao Environmental Statement based on a new mission: positioning ecology at the core of management. Kao aims to contribute to "the wholehearted satisfaction and enrichment of the lives of people globally" in the fields of cleanliness, beauty and health. The Group also adopted "KAO" as its logo.



July 2009

Kao Corporation GmbH Plant Begins Operations

Kao acquired a premium hair care product plant in Darmstadt, Germany, through Kao Corporation GmbH in order to strengthen its global production system. The plant began production in July as a core manufacturing base in Europe and is expected to allow the Group to supply its products in a more efficient and consistent manner.



August 2009

Attack Neo Summer Vacation Laundry Workshop

Kao held an *Attack Neo* Summer Vacation Laundry Workshop for parents and children to communicate the features of *Attack Neo*, which implements the "eco together" with consumers/customers principles embraced in the Kao Environmental Statement. Elementary school students and their mothers or other guardians experienced firsthand *Attack Neo*'s stain-fighting and clean-rinsing effectiveness.



September 2009

Essential Damage Care Launched in Thailand and Singapore

Adding to availability in Taiwan and Hong Kong, the Kao Group introduced its *Essential Damage Care* brand of hair care products in Thailand and Singapore. As in Japan, the brand proposes "damage care so you can enjoy style." Advertisements and publicity incorporating the same concepts as those used in the home market of Japan target women in their twenties, who are sensitive to Japanese fashion trends.



September 2009

Aqua Sprina and Coffret d'Or Launched in China

Kanebo Cosmetics revamped its *Aqua* brand and launched *Aqua Sprina* in China. At the same time, Kanebo Cosmetics began offering counseling using skin measurement devices at about 100 department stores in the country. Kanebo Cosmetics also launched the *Coffret d'Or* brand of makeup products, which is popular among Japanese consumers, in China as part of an effort to enhance its brand strength there.



September 2009

Kanebo Cosmetics in Russia Begins Operations

Kanebo Cosmetics established Kanebo Cosmetics Rus LLC in Russia, and the new company began operations in September. Although the Kao Group has previously conducted its business in the Russian market through sales distributors, the establishment of a local subsidiary reflects an effort to accelerate the marketing strategy for the *Sensai* brand and otherwise strengthen its brand presence in the country.



September 2009

Best Lecture Award in Technology Research for Increasing Hair Flexibility

Kao received the Best Lecture Award after presenting research findings relating to technology for increasing hair flexibility at the 16th International Hair Science Symposium in Germany. Recognition of Kao's hair care technology development capabilities and reliability at the international conference added to the momentum for additional research by the company.



October 2009

Pink Ribbon Campaign in Japan, Shanghai, and Hong Kong

Every October, the Kao Group holds a Pink Ribbon Campaign as a way to spread awareness of the importance of the early detection of breast cancer. During the campaign, employees handed out awareness-raising leaflets to customers visiting cosmetics displays, not only at *Kao Sofina* and *Kanebo Cosmetics* stores in Japan, but also at stores in Shanghai and Hong Kong.



November 2009

Fatty Chemical (Malaysia) Receives Hibiscus Award

Fatty Chemical (Malaysia) Sdn. Bhd. received the Prime Minister's Hibiscus Award, an environmental award bestowed by the Malaysian government. The award recognized the contribution of the daily environmental activities of the four Kao Group companies based in Penang to the improvement of the environment in Malaysia.



March 2010

Eco-Products International Fair in Indonesia

The Kao Group exhibited at the 6th Eco-Products International Fair in Indonesia, Asia's largest environmental exhibition. Among the accomplishments showcased by the Group were initiatives to reduce waste by refill products, which is widely used in Japan, and sanitary products. The event allowed the Kao Group to communicate its initiatives to numerous attendees.



Keeping the Focus of Business Activities on the Consumers' Perspective

The Kao Group, which follows *Yoki-Monozukuri* in keeping with its goal of striving for the wholehearted satisfaction and enrichment of the lives of people globally, pursues its business activities in an integrated manner that extends from research and development to marketing, production, distribution, and sales in order to supply products that are created from the consumers' and customers' perspective.



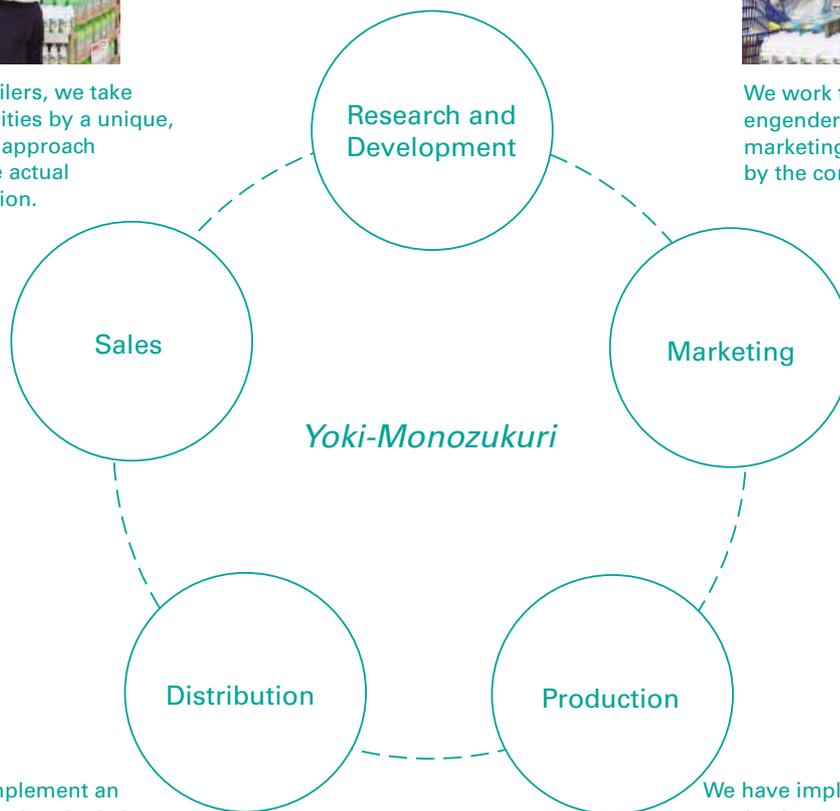
Together with retailers, we take various sales activities by a unique, proposal-oriented approach in order to achieve actual customer satisfaction.



We strive to create innovative products that deliver consumer satisfaction by using matrix management in product development research and fundamental research.



We work to create products that engender a sense of joy through marketing activities that are informed by the consumers' perspective.



We strive to implement an efficient approach to logistics based on a coherent series of movements extending from the purchase of raw materials to the delivery of products to customers.



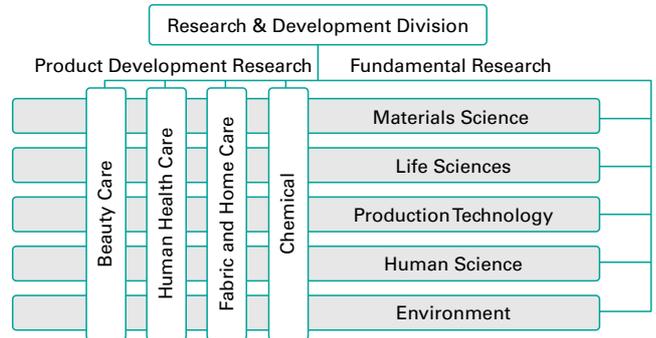
We have implemented a proprietary production system that delivers both high quality and low cost, enabling us to respond quickly to a market environment that is characterized by relentless change.



Striving to Create Innovative Products through Matrix Management

The Kao Group research and development employs matrix management, one devoted to product development research based on consumer needs and fundamental research which is dedicated to deepening our understanding of the latest technologies, materials, mechanisms and phenomena. Furthermore, researchers work closely with production, product quality management, and consumer communication sections within the company to create innovative products.

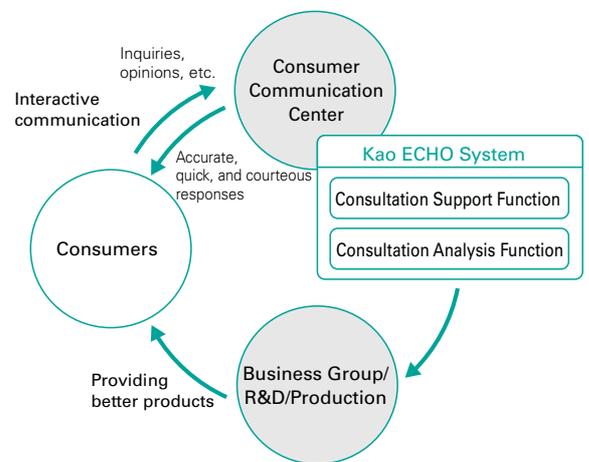
Matrix Management in Research and Development



Ensuring Clear Communication with Consumers

Yoki-Monozukuri from the *Consumer Driven* perspective—this is the foundation of marketing at the Kao Group. We painstakingly investigate consumer needs during product development stage as well as strive to accurately communicate product benefits and implement sales area designs that make it easy to choose and purchase products. The Consumer Communication Center, which receives feedback directly from consumers, plays an important role in this effort. Feedback from consumers is put to use in developing the products that consumers truly desire and improving existing products and services.

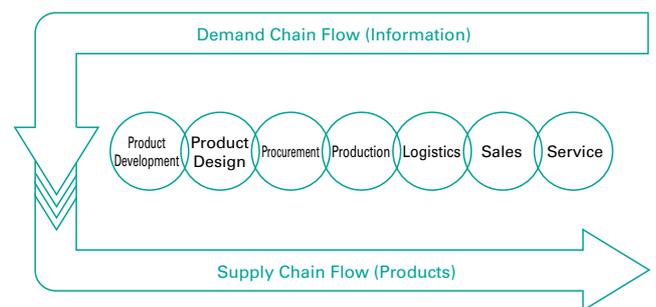
Mechanism to Reflect Consumer Feedback in Products



Total Supply Chain Management for Realization of Optimum Products Supply

The Kao Group is more than ever reinforcing linkages between business units and functional divisions such as procurement, production, logistics, and sales. The Kao Group's total supply chain management is promoting the efficient operations for reduction of stockout, inventory and costs through integration from product development and design sales.

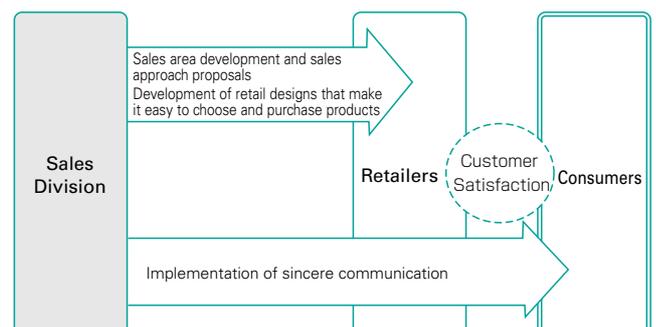
Approach to Total Supply Chain Management



Sales Activities to Realize Customer Satisfaction

The Kao Group is working to build a proprietary sales system for its Sales Division consisting of information and distribution networks, sales area development and sales approach proposals, and communication with consumers, including counseling, in order to provide products, brands, information, and other resources with great value to consumers through retailers. We are striving for customer satisfaction through proposal-oriented sales activities that accommodate both consumer needs and retailer issues.

Approach to Sales Activities



Promoting Business Activities to Realize a Sustainable Society

In order to realize a sustainable society, the Kao Group incorporates CSR and sustainability perspectives into its business activities and works to establish and strengthen a sound, highly transparent management structure.

Developing New Structures Conceived to Further Social Sustainability

In recent years, major alarm bells have been sounded concerning the sustainability of the global environment and humankind. The Kao Group has identified three major themes that describe its responsibility to act as a member of society in the drive to achieve sustainability so that humankind can prosper while the global environment is being protected, allowing it to be passed on to the next generation.

Eco

Undertaking corporate activities that seek a sustainable relationship between people and the natural environment

Global

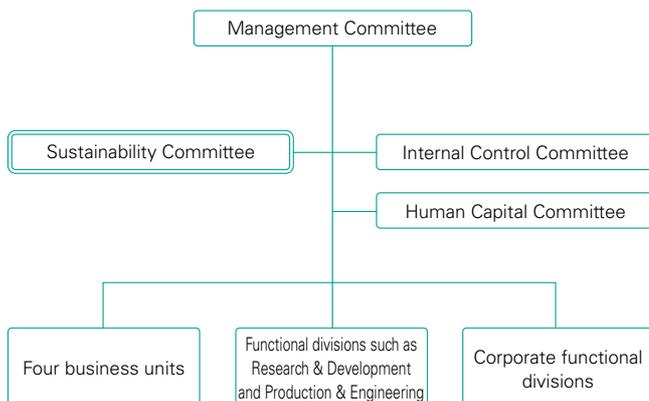
Pursuing our businesses with a focus on robust development not only in developed nations, but also in developing and emerging nations, with a core emphasis on thorough compliance with laws and regulations

Human capital development

Nurturing the global development of human capital capable of creating new value

How can the Kao Group best contribute to social sustainability through *Yoki-Monozukuri*? We are working to develop and promote new structures, for example by creating a Sustainability Committee, in order to bring every aspect of our business activities to bear on the drive to achieve a sustainable society while advancing existing corporate social responsibility (CSR) activities and maintaining our fundamental focus on the Kao Way, our statement of Kao's corporate philosophy.

Creating Structures to Help Achieve Sustainability



Seeking to Earn Trust Worldwide Based on the Concept of Sustainability

Based on its awareness that there can be no corporate sustainability in the absence of social sustainability, the Kao Group recognizes its obligation to fulfill its responsibilities globally as a member in good standing of society. Our participation in the United Nations Global Compact (GC)*, which requires the observance of 10 principles concerning human rights, labor, and the environment, is an expression of this stance.

The Kao Group is committed to effecting new innovation in its business activities based on the concept of sustainability in order to contribute to the sustainable development of the global environment and human society and to earn trust worldwide.



*Dedicated to encouraging corporations worldwide to support and put into practice as global citizens 10 principles concerning human rights, labor, the environment, and the prevention of corruption, the Global Compact embodies a philosophy advanced at the World Economic Forum held in Davos, Switzerland, in 1999.

Evaluation by Global SRI Indexes

The Kao Group's sustainability initiatives have been favorably evaluated by the FTSE4Good Global Index and the Dow Jones Sustainability World Indexes (DJSI World), both leading global socially responsible investment (SRI)* indexes. Kao has been included in these SRI indexes since 2008.

*Indexes based on socially responsible investment (SRI), which incorporates corporate social responsibility (CSR) along with financial performance as key criteria in investment decisions.



Continual Enhancement of Corporate Governance

Kao's basic position on corporate governance is to develop a managerial framework and internal control system that

can take the necessary measures to realize highly efficient, sound, and transparent management. Kao considers corporate governance to be one of its most important managerial tasks and implements associated policies as appropriate when they are needed.

Continual Enhancement of Corporate Governance

Corporate Governance Component	Description
Form of organization	Company with Corporate Auditors (by means of an executive officer system that separates the supervision function from the execution function)
Election of Chairman of Board of Directors and President	The company has established the Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President consisting of all Outside Directors and Outside Corporate Auditors. The committee examines the nominees prior to the election or re-election of the Chairman of the Board of Directors and/or the President, and submits its evaluation of the nominees' qualification to the Board of Directors.
Number of Directors (Outside Directors)	15 (2, one of whom is an independent Director reported to the Tokyo Stock Exchange)
Number of meetings of Board of Directors during fiscal 2009 and average attendance of Outside Directors	14 (including 2 extraordinary meetings), 75% (including extraordinary meetings)
Director and Executive Officer compensation	<ul style="list-style-type: none"> With regard to the remuneration for the Directors and the Executive Officers, the company has implemented a stock option plan for the purpose of aligning the interests of the Directors and the Executive Officers with those of the shareholders of the company, as well as remuneration linked to corporate performance based on EVA (Economic Value Added), etc. The company has established the Compensation Advisory Committee consisting of all Representative Directors, the Chairman of the Board of Directors, and all Outside Directors. The committee meets once a year to review the suitability of the remuneration system and the level of remuneration for the Directors and the Executive Officers and advise the Board of Directors accordingly.
Number of Corporate Auditors (Outside Corporate Auditors)	4 (2, both of whom are independent auditors reported to the Tokyo Stock Exchange)
Number of meetings of Board of Auditors during fiscal 2009 and average attendance of Outside Corporate Auditors	8 (including 4 extraordinary meetings), 100% (including extraordinary meetings)
Strengthening audit system and activities	For improving the auditing effectiveness and strengthening the auditing function, Corporate Auditors, including Outside Corporate Auditors exchange opinions regularly with Representative Directors, attend the meeting of the Board of Directors, share auditing information with Corporate Auditors of domestic Group Companies, the internal auditing division and the Company's Accounting Auditor, and do other activities.
Overview of Kao's internal control system	<p>The company pursues the following initiatives in accordance with its <i>Policies Regarding Maintenance of Internal Control System</i>:</p> <ul style="list-style-type: none"> The Internal Control Committee has responsibility for discussing and making decisions concerning the development of structures and planning of operations of internal control. It assesses their status and makes improvements as necessary. Six committees have been placed under the Internal Control Committee (Disclosure Committee, Compliance Committee, Information Security Committee, Risk Management Committee, Committee for Responsible Care Promotion, and the Quality Assurance Committee). Each committee works to strengthen internal control.
Promoting the appropriate disclosure of information	The company's Disclosure Committee promotes disclosing information in a timely, appropriate, and impartial manner in accordance with its <i>Disclosure Guidelines</i> .
Compliance initiatives	<ul style="list-style-type: none"> Kao enacted <i>Kao's Business Conduct Guidelines</i> (BCG) in 2003 (the <i>Guidelines</i> were subsequently revised in 2008). Almost all affiliates in Japan and overseas have adopted the BCG or a code of conduct equivalent to the BCG. *More detailed information about the BCG is available online at http://www.kao.com/jp/en/corp_info/compliance.html The company has created the Compliance Committee which is responsible for enacting and revising the BCG, and it pursues activities and other initiatives to ensure that corporate ethics permeates and takes hold at all Group companies. The committee also reports on important issues and decisions to the Board of Directors as appropriate.
Risk management initiatives	<ul style="list-style-type: none"> The company has established explicit priorities for managing and dealing with risks based on <i>Kao's Risk Management Policy</i>. The company has created the Risk Management Committee to strengthen risk management horizontally across departments and throughout the Group, and it promotes practice of the PDCA (Plan, Do, Check, and Act) cycle for risk management. The Risk Management Promotion Liaison Meeting meets three times each year.

Directors, Corporate Auditors and Executive Officers

Board of Directors *Holds the post of Executive Officer concurrently **Outside Director

(As of June 29th, 2010)

	Motoki Ozaki* Representative Director, President and Chief Executive Officer		Takuo Goto* Representative Director, Senior Executive Vice President, Global Production & Engineering, Global Logistics		Hiroshi Kanda* Representative Director, Senior Executive Vice President, Global Consumer Products Business, Chairman of the Board, Kanebo Cosmetics Inc.		Shunichi Nakagawa* Executive Vice President, Global Legal & Compliance, Global Corporate Communications, Risk Management, Global Information Systems
	Tatsuo Takahashi* Executive Vice President, Representative Director, President and Chief Executive Officer, Kao Customer Marketing Co., Ltd.		Toshiharu Numata* Executive Vice President, Global R&D		Toshihide Saito* Senior Vice President, Corporate Strategy		Shinichi Mita* Vice President, Global Accounting & Finance
	Masato Hirota* Vice President, Global Media Planning		Shinichiro Hiramine* Chairman of the Board of Directors and Chief Executive Officer, Kao (China) Holding Co., Ltd.		Ken Hashimoto* Vice President, Global Procurement		Michitaka Sawada* Vice President, Global R&D (Human Health Care)
	Hisao Mitsui* Vice President, Global Production & Engineering, Fabric & Home Care SCM Center, Wakayama Plant		Teruhiko Ikeda** Advisor, Mizuho Trust & Banking Co., Ltd.		Takuma Otoshi** Chairman, IBM Japan, Ltd.		

Corporate Auditors ***Outside Corporate Auditor

Takashi Matsuzaka Full-time Corporate Auditor	Masanori Sunaga Full-time Corporate Auditor	Tadashi Oe*** Corporate Auditor, Attorney at Law	Yutaka Yogo*** Corporate Auditor, Certified Public Accountant
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Executive Officers

Yoshitaka Nakatani Vice President, Environment and Safety Management	Yasushi Aoki Vice President, Global Human Capital Development	Naohisa Kure Vice President, Global R&D (Beauty)
Shigeru Koshiba Vice President, Corporate Strategy	Masumi Natsusaka President, Global Beauty Care Business	Mikio Nakano Representative Director, Senior Executive Vice President, Kao Customer Marketing Co., Ltd.
Shoji Kobayashi President, Global Chemical Business	William J. Gentner Vice President, Corporate Strategy, President and Chief Executive Officer, Kao Brands Company	Akira Yoshimatsu Vice President, Global R&D (Fabric & Home Care and Chemical)
Takuji Yasukawa President, Global Food & Beverage	Katsuhiko Yoshida President, Global Fabric & Home Care Business	Hideko Aoki Vice President, Product Quality Management

• Director Takuma Otoshi and Corporate Auditors Tadashi Oe and Yutaka Yogo are Independent Director/Auditors reported to the Tokyo Stock Exchange.

Kao Group History

Three years after its founding in 1887, Kao launched *Kao Sekken*, a high quality toiletry soap produced domestically in Japan that compared favorably with imported products. Since then, the Kao Group has pursued *Yoki-Monozukuri* from the consumers' and customers' perspective over the course of the intervening 120 years.

Corporate History

Product History

1880 to 1890s

1887

Kao founder Mr. Tomiro Nagase starts Nagase Shoten, a Western sundry goods dealer that would later become Kao.



1890

Kao Sekken, a high quality toiletry soap, is launched.

The new product compares favorably with imported products in terms of quality and sells briskly.



1900s

1902

Ukechi Factory is completed as a directly managed plant capable of handling the entire production process, from raw material preparation to final product packaging.



1900

Nihachisui moisturizer is launched.



1911

Crude glycerine is launched.

1920s

1923

Tokyo Azuma Factory (currently the Sumida Complex) begins operations, expanding the scale of the company's soap production.



1928

Econa, institutional-use edible fat and oil, is launched. The new product's name is an acronym derived from "Edible Coconut Oil of Nagase."



1930s

1934

The Nagase Housework Science Laboratory is founded as a research facility that takes a scientific approach to housework. (The facility is renamed Kao Housework Science Laboratory in 1954.)



1931

New and improved *Kao Sekken* is launched featuring improved quality and a more affordable price.

1932

Kao Shampoo is launched.

1938

Excelin, a powder-type detergent made from higher alcohol, is launched.

The new product causes "shampoo" to become an everyday word, changing Japanese hair-washing habits. (A poster used during the product launch)



1950s

1951

Kao Kona Sentaku, Japan's first powder laundry detergent for household use, is launched. (The new product, which is renamed *Wonderful* in 1953, becomes a hit, spurred on by the increasingly widespread use of electric washing machines.)

1957

Kao begins exporting *Kao Feather Shampoo*, a powder-type product featuring a neutral formulation, to Asia.

1958

Wonderful-K, a detergent for kitchen use, is launched, first as a powder- and later as a liquid-type product.



1960s

1964

Kao Industrial (Thailand) Co., Ltd. is established. Taiwan-Kao Company, Ltd. is established. (The company is renamed Kao (Taiwan) Corporation in 1991.)

Kao Industrial (Thailand) Co., Ltd. was established in Thailand, where Kao had been exporting and selling *Kao Feather Shampoo* since 1957.



1960

Zav laundry detergent is launched and becomes widely known for its advertising slogan, "*Ganko na yogore ni Zav*" ("*Zav*, for stubborn dirt"). *Mypet*, Japan's first liquid household detergent, is launched.

1962

Kao Softer anti-static fabric softener is launched. (The new product is renamed *Humming* in 1966.) *Kao Bleach* chlorine-based bleach is launched. (The new product is renamed *Kao Haiter* in 1966.)

1963

New Beads laundry detergent is launched and becomes broadly popular with consumers thanks in part to its advertising slogan, "*Shiroso to kaori no New Beads*" ("*New Beads*, whiteness and fragrance").

1964

MIGHTY, a water-reducing agent for concrete is launched.

1967

Halo toothpaste is announced as a new product for the fast-growing toothpaste market.



1970s

1970
Kao (Hong Kong) Ltd. is established.
Sinor-Kao S.A. (Spain) is established.

1971
Nivea-Kao Co., Ltd. is established as a joint venture with Beiersdorf AG (West Germany).
Kao Life Science Laboratory is founded to carry on and expand on the functions of Kao Housework Science Laboratory.

Kao focuses on customer service in order to more effectively bring feedback from consumers to bear in its corporate activities.



1973
Kao (Malaysia) Sdn. Bhd. is established.

1974
Kao-Quaker Co., Ltd. is established as a joint venture with Quaker Oats Company (U.S.) to manufacture and sell furan resin for use with casting sand. (The new company becomes a wholly owned Kao subsidiary in 1997.)

1975
Quimi-Kao, S.A. de C.V. (Mexico) is established.
Kao Commercial (Thailand) Co., Ltd. is established.

1977
Pilipinas Kao, Incorporated (Philippines) is established.
P.T. Polekao Indonesia Chemicals is established. (The company is renamed P.T. Kao Indonesia Chemicals in 1996.)
Kao acquires Molins Y Puigarnau S.A. (Spain). (The company is renamed Molins-Kao S.A. in 1979.)

1978
Ehime Sanitary Products Co., Ltd. is established.

1970
Merit Shampoo is launched.



The new product becomes a bestseller and prototypical shampoo brand after gaining acceptance among consumers concerned about dandruff, ranging from children to adults, for its ability to maintain clean hair and scalp.

1971
Magiclean household cleaner for hard to clean areas such as vents and stoves is launched.



1979
Laurier sanitary napkins are launched. The new product gains broad acceptance among women as a new, highly absorbent type of sanitary napkin developed using super water-absorbent polymers.



1980s

1980
Guhl Kosmetik is established in West Germany as a joint venture with Beiersdorf AG. (The company is renamed Guhl Ikebana GmbH in 1986.) The new company develops its hair care business in Europe.

1985
Kao Soap Co., Ltd. is renamed Kao Corporation to reflect the increasingly broad scope of its businesses.
Kao acquires a stake in P.T. Dino Indonesia Industrial Ltd. (The company is renamed P.T. Kao Indonesia in 1997.)

1986
Kao launches the Total Cost Reduction (TCR) program to effect a companywide, top-to-bottom review of organizational operations and workflow.

1987
Kao acquires High Point Chemical Corporation (U.S.). (The company is reorganized as Kao Chemicals Americas Corporation, High Point Textile Auxiliaries LLC, and Kao Specialties Americas LLC.)
Sinor-Kao S.A. and Molins-Kao S.A. merge to form Kao Corporation S.A. (Spain).



1988
Kao acquires the Andrew Jergens Company (U.S.). (The company is renamed Kao Brands Company in 2004.)

Fatty Chemical (Malaysia) Sdn. Bhd. is established.



1989
Kao acquires Goldwell AG (West Germany). (The company is renamed KPSS-Kao Professional Salon Services GmbH in 2003.)

1980
Bioré Facial Foam is launched as a replacement for soap in the form of a new, neutral type of facial cleanser that is gentle on the skin.
Toner binder for copiers is launched.



1981
Kao (Hong Kong) Ltd. launches *Bioré Facial Foam*. The product is later launched throughout Asia.

1982
Kao Sofina is launched as a new line of basic skin care cosmetic products offering dermatology-based basic skin care. Deinking agents for paper recycling are launched.



1983
Bub bath additive is launched. The product creates a new market as a tablet-type effervescent bath additive that makes use of carbon dioxide gas to stimulate blood circulation.



1984
Merries baby diapers are launched as a new type of disposable diaper derived from the development of various new processing technologies and functional materials such as super water-absorbent polymers, non-woven sheets, and breathable sheets.
Bioré U body wash is launched. The new product drives growth in the body shampoo market, where it becomes the top-selling brand.
Kao (Taiwan) Corporation launches *Laurier* sanitary napkins. The product is later launched throughout Asia.

1987
Attack compact laundry detergent is launched.

Able to deliver powerful cleansing power with just one-fourth the volume of conventional detergents thanks to its use of innovative biotechnologies, the new product becomes an explosive hit among consumers and makes detergent history.



1988
Attack is launched overseas for the first time in Singapore. The product is later launched throughout Asia.

1989
Sifone two-in-one shampoo is launched in Singapore.

1990s

1991

Kao Oleochemical (Malaysia) Sdn. Bhd. is established.

1992

Kao (Australia) Marketing Pty. Ltd. is established.
Kao acquires Chemische Fabrik Chem-Y GmbH (Germany).
(The company is renamed Kao Chemicals GmbH in 1996.)

1993

Kao Corporation Shanghai is established.

**1995**

Kao adopts the Kao Management Principles as its corporate philosophy.
Kao Chemical Corporation Shanghai is established.

1996

Kao Vietnam Co., Ltd. is established.

1997

Kao Chemicals (Hong Kong) Ltd. is established.

1999

Kao Hanbai Co., Ltd. is established following the merger of eight regional Hansha, or sales companies specializing in the wholesaling of Kao products. (The company becomes a 100% subsidiary in 2004, merges with Kao Cosmetics Sales Co., Ltd. in 2007 which is renamed Kao Customer Marketing Co., Ltd.)
Kao Chemicals Europe, S.L. is established (Spain).

1994

Aube line of cosmetics is launched.



Quickle Wiper for flooring, a household cleaning implement, is launched. The new product gains broad acceptance among consumers for making cleaning easier.

**1997**

The Andrew Jergens Company in the U.S. (presently Kao Brands Company) launches *Bioré* brand skin care products. The products are later launched throughout Europe and North America.

1999

Econa Cooking Oil, a cooking oil that is formulated to help prevent the accumulation of fat deposits in the body, is launched. The new product becomes the first cooking oil to be approved as a Food for Specified Health Use by Japan's Ministry of Health, Labour and Welfare (Surrenders Food for Specified Health Use certification in October 2009).

2000s

2000

Kao Consumer Products (Southeast Asia) Co., Ltd. is established in Thailand.

2001

ADM Kao LLC is established as a joint venture with Archer Daniels Midland Company (U.S.). (The company later becomes a 100% subsidiary as Kao Health & Nutrition LLC in 2009.)

2002

Kao acquires John Frieda Professional Hair Care, Inc. a premium hair care product manufacturer with bases in the U.S. and U.K. (The company is merged into Kao Brands Company in 2004.)
Kao (China) Holding Co., Ltd. is established in China.

2004

The Kao Management Principles are revised and adopted as the Kao Way, a statement of the Kao Group's corporate philosophy.

2005

Kao acquires Molton Brown Ltd. (U.K.).

2006

The Kao Group acquires Kanebo Cosmetics Inc.

The Kao (China) Research and Development Center Co., Ltd. is established in China.



A new fatty alcohol plant is constructed and begins operations at Pilipinas Kao, Incorporated in the Philippines.

2007

Kao Museum opens at the Sumida Complex in Tokyo with displays tracing the cultural history of cleanliness and Kao's corporate history.

2009

Kao announces an Environmental Statement positioning ecology at the core of management as well as a new corporate identity.
Kao acquires a premium hair care products factory in Germany through Kao Corporation GmbH.

2001

Attack-microparticles, a detergent featuring a fast-dissolving formula with a high level of cleansing power, is launched.

Elumen hair coloring agents are launched by Goldwell AG (Germany). (presently KPSS-Kao Professional Salon Services GmbH)

2003

Healthya Green Tea, an approved Food for Specified Health Use with concentrated tea catechin content to stimulate the consumption of body fat as a source of energy, is launched.

Asience, a premium hair care products brand, is launched.

**2004**

Brilliant Brunette is launched under the *John Frieda* brand of hair care products by Kao Brands Company.

**2005**

Jergens Natural Glow is launched as a completely new concept in skin care by Kao Brands Company.
Kao (Taiwan) Corporation and Kao (Hong Kong) Ltd. launch the *Asience* brand of premium hair care products. The products are later launched in Shanghai and Thailand.

2006

Attack Easy, a hand-washing laundry detergent, is launched in Thailand.

**2007**

Coffret d'Or, a total makeup brand, is launched by Kanebo Cosmetics Inc.

**2008**

Sofina Beauté, a new brand of basic skin care cosmetics, is launched.
Sofina Primavista, a new brand of base makeup, is launched.
Blauné Hair Color Foam, a new concept that uses foam to dye gray hair, is launched.

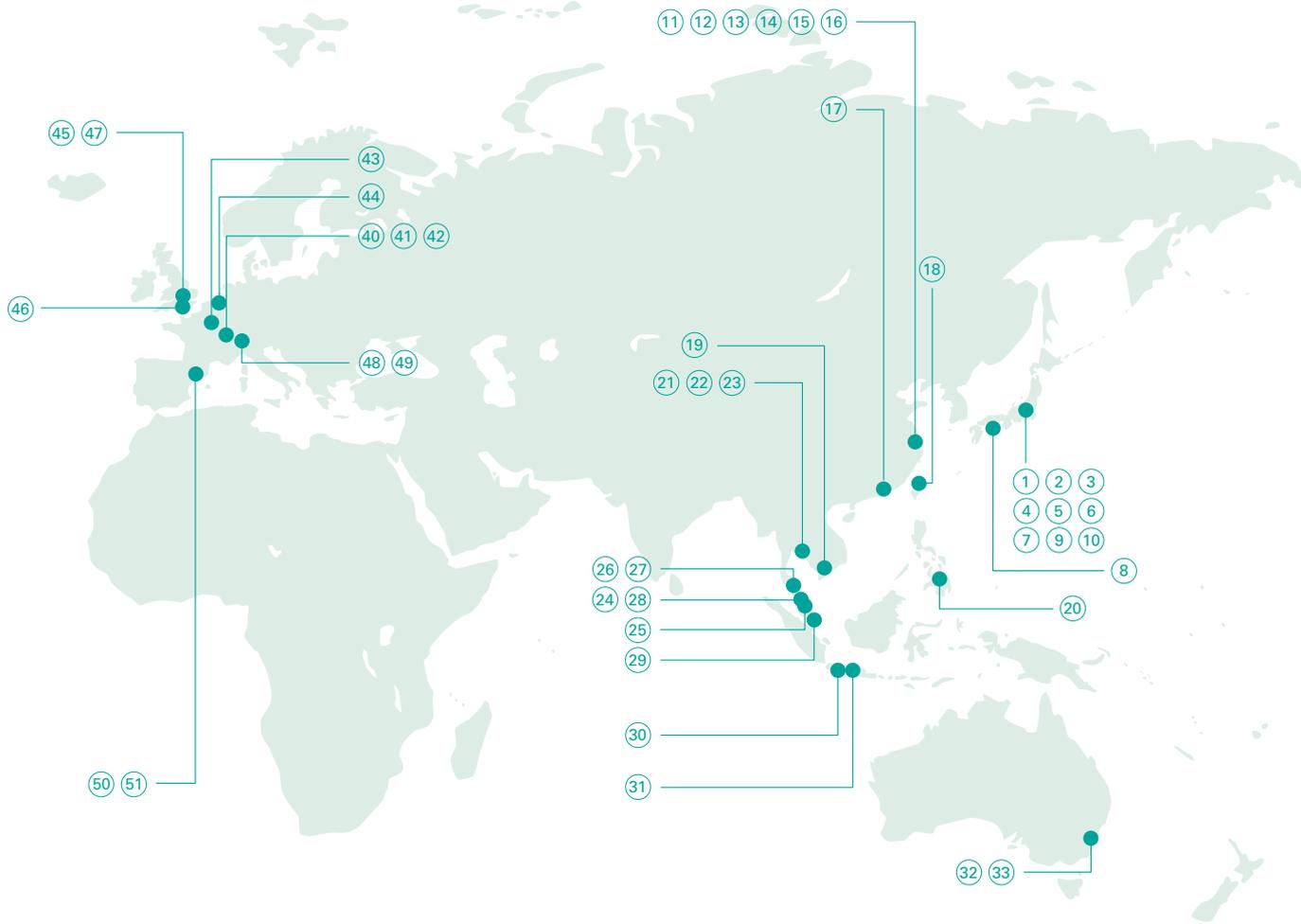
With the world's first 2.5x ultra-concentrated formula, the new product delivers a new level of environmentally friendly performance requiring just one rinse cycle.

**2009**

Attack Neo liquid detergent for clothes is launched.

Kao Group around the World

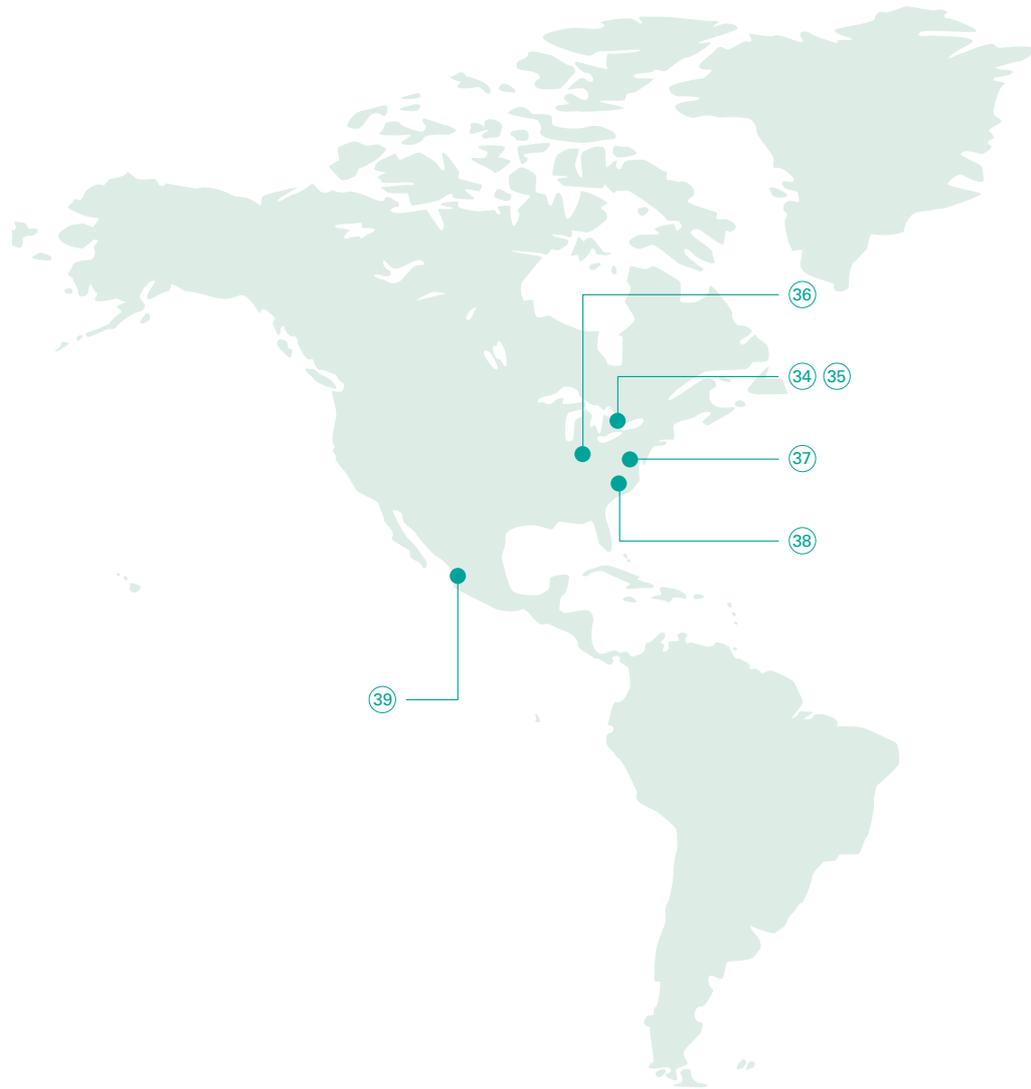
The Kao Group conducts business activities worldwide in order to strive for the wholehearted satisfaction and enrichment of the lives of people. Going forward, we remain committed to pursuing *Yoki-Monozukuri* to provide new value to the world in an effort to grow into a truly global corporation.



Principal Subsidiaries and Affiliates

Country/Area	Business	Company
Japan	● ● ●	① Kao Customer Marketing Co., Ltd.
	●	② Kanebo Cosmetics Inc.
	●	③ Kanebo Cosmetics Sales Inc.
	●	④ E'quipe, Ltd.
	●	⑤ Lissage Ltd.
	●	⑥ Kanebo Cosmillion, Ltd.
	●	⑦ Nivea-Kao Co., Ltd.
	● ● ●	⑧ Ehime Sanitary Products Co., Ltd.
	● ●	⑨ Kao Professional Services Co., Ltd.
	●	⑩ Kao-Quaker Co., Ltd.
China	● ● ● ●	⑪ Kao (China) Holding Co., Ltd.
	● ● ● ●	⑫ Kao Corporation Shanghai
	● ● ● ●	⑬ Kao Commercial (Shanghai) Co., Ltd.
	●	⑭ Shanghai Kanebo Cosmetics Co., Ltd.
	●	⑮ Kao Chemical Corporation Shanghai
	●	⑯ Kao Trading Corporation Shanghai
	● ● ●	⑰ Kao (Hong Kong) Ltd.

Country/Area	Business	Company
Taiwan	● ● ● ●	⑱ Kao (Taiwan) Corporation
Vietnam	● ●	⑲ Kao Vietnam Co., Ltd.
Philippines	●	⑳ Pilipinas Kao, Incorporated
Thailand	● ● ● ●	㉑ Kao Industrial (Thailand) Co., Ltd.
	● ● ● ●	㉒ Kao Commercial (Thailand) Co., Ltd.
	● ● ● ●	㉓ Kao Consumer Products (Southeast Asia) Co., Ltd.
Malaysia	●	㉔ Kao Soap (Malaysia) Sdn. Bhd.
	● ● ●	㉕ Kao (Malaysia) Sdn. Bhd.
	●	㉖ Fatty Chemical (Malaysia) Sdn. Bhd.
	●	㉗ Kao Plasticizer (Malaysia) Sdn. Bhd.
	●	㉘ Kao Oleochemical (Malaysia) Sdn. Bhd.
Singapore	● ● ● ●	㉙ Kao (Singapore) Private Ltd.
Indonesia	● ● ●	㉚ P.T. Kao Indonesia
	●	㉛ P.T. Kao Indonesia Chemicals
Australia	●	㉜ KPSS Australia Pty. Ltd.
	● ●	㉝ Kao (Australia) Marketing Pty. Ltd.
Canada	●	㉞ Kao Brands Canada Inc.



Kao Corporation Company Profile (as of March 31, 2010)

- **Company Name**
Kao Corporation
- **Head Office**
14-10, Nihonbashi Kayabacho 1-chome
Chuo-ku, Tokyo 103-8210, Japan
- **Founded**
June 1887
- **Incorporated**
May 1940
- **Paid-in Capital**
85.4 billion yen
- **Number of Employees**
5,908 (Kao Group: 34,913)
- **Stock Listing**
Tokyo Stock Exchange, First Section
- **Number of Shares in Each Unit Share**
100
- **Ticker Symbol Number**
4452
- **Administrator of Shareholder Register**
The Chuo Mitsui Trust and Banking
Co., Ltd.
- **Total Authorized Shares**
1,000,000,000
- **Total Issued Shares**
540,143,701
- **Number of Shareholders**
49,180

Country/Area	Business	Company
	●	③⑤ KPSS Canada Inc.
U.S.A.	●	③⑥ Kao Brands Company
	●	③⑦ KPSS, Inc.
		● ③⑧ Kao Specialties Americas LLC
		● ③⑨ Quimi-Kao, S.A. de C.V.
Mexico		● ③⑨ Quimi-Kao, S.A. de C.V.
Germany	●	④⑩ KPSS-Kao Professional Salon Services GmbH
	●	④① Guhl Ikebana GmbH
	●	④② Kao Corporation GmbH
		● ④③ Kao Chemicals GmbH
The Netherlands	●	④④ KPSS Nederland B.V.
United Kingdom	●	④⑤ Kao Brands Europe Ltd.
	●	④⑥ KPSS (UK) Ltd.
	●	④⑦ Molton Brown Ltd.
Switzerland	●	④⑧ KPSS AG
	●	④⑨ Kanebo Cosmetics (Europe) Ltd.
Spain		● ⑤⑩ Kao Chemicals Europe, S.L.
		● ⑤① Kao Corporation S.A.

Kao

Enriching lives, in harmony with nature.

Kao Corporation

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<http://www.kao.com>

