

Kao Integrated Report

2017

For the year ended  
December 31, 2016

kaO



## *KIREI* Equals Happiness

*KIREI* is a Japanese word with a complex range of meanings, including pristine, beautiful, healthy, pure, and fair. It is a simple yet very expressive word.

*KIREI* is a word often used in everyday conversation, and yet it also evokes certain wishes or desires. No word better reflects Kao's ambitions since we created our first quality facial soap.

We want *KIREI* for our loved ones. And we want *KIREI* for ourselves, for the sake of our loved ones. These feelings, shared by all, shape Kao's corporate identity. Throughout Kao's 130 years of history, we have applied our *Yōki-Monozukuri*\* approach to the making of outstanding products that respond to consumers' yearning for everything in life that is *KIREI*.

With a meaning that resonates beyond external beauty to include sound health and sincerity, *KIREI* is also a gentle reminder to care for our environment. This deeply nuanced word can serve as a beacon to guide all our corporate activities.

*KIREI* embodies a way of life. It is an ideal that transcends differences of language and culture. *KIREI* can be a source of well-being for the world. In 2017, *KIREI* will provide new motivation for us as we strive to contribute to satisfaction and enrichment of the lives of people all over the world.

\* Please refer to the notes on page 3.

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# The Kao Way

## Our Starting Point and Guide to Our Future

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.

Ever since our beginning in 1887, we have distinguished ourselves through the unique concept we call *Yoki-Monozukuri*,\*<sup>1</sup> which represents our pursuit of the following commitments.

- We strive to develop innovative products and brands to maximize consumer satisfaction by determining the true needs of consumers and fusing them with the seeds of R&D.
- We keep pursuing innovation, never being satisfied with the status quo.
- We create dynamic synergies by uniting the creativity and strengths of each individual and team.
- We conduct all product development and business activities in a way that creates social value.

The *Yoki-Monozukuri* concept lies at the root of all our strengths as a corporation. For every employee of Kao, it provides key guidelines as we work toward sustainable growth for Kao and for peaceful coexistence with society.

## A company with a global presence

**To this end, Kao will improve its corporate value by creating unique and innovative social value now and in the future.**



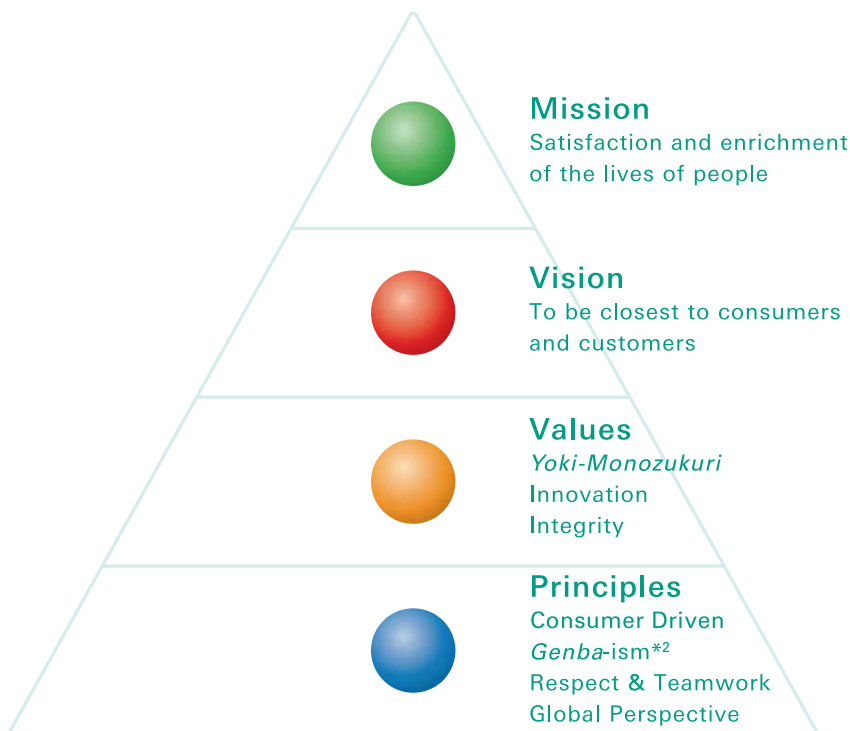
1887  
Kao founder Mr. Tomiro Nagase launches  
Nagase Shoten



1890  
Nagase Shoten launches *Kao Sekken*, an affordable,  
Japanese-made soap with the quality to compete with  
imported products

## An Unchanging Corporate Philosophy

### The Kao Way



**Each of the four elements of the Kao Way states our answer to a vital question.**

<b>Mission</b> What we exist for
<b>Vision</b> Where we want to go
<b>Values</b> What we believe in
<b>Principles</b> How we behave

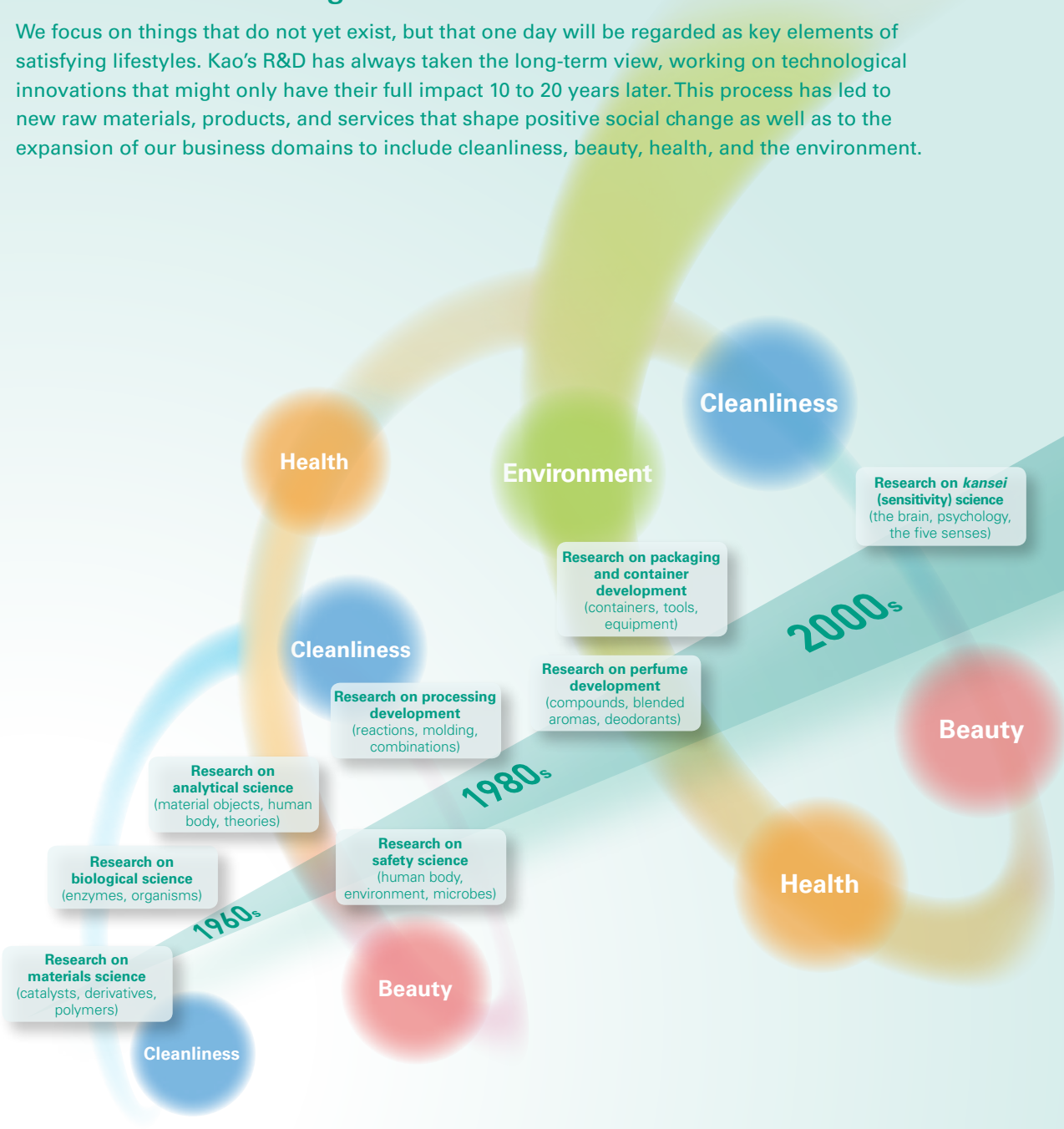
\*1 We define *Yoki-Monozukuri* as "a strong commitment by all members of the Kao Group to provide products and brands of excellent value for consumer satisfaction." This core concept distinguishes Kao from all others.

\*2 *Genba* literally means "actual spot." At Kao, *Genba-ism* defines the importance of observing things "on-site," in the actual location and environment, both internally and externally, in order to maximize our understanding of the business and optimize our performance.

# Implementing the Kao Way

## Expansion of Business Domains through Innovative Technologies

We focus on things that do not yet exist, but that one day will be regarded as key elements of satisfying lifestyles. Kao's R&D has always taken the long-term view, working on technological innovations that might only have their full impact 10 to 20 years later. This process has led to new raw materials, products, and services that shape positive social change as well as to the expansion of our business domains to include cleanliness, beauty, health, and the environment.



# A Company with a Global Presence

Contribute to the field of health

Contribute to the field of hygiene

Contribute to the global environment

Respond to the needs of an aging society

2020s

## Advanced Initiatives toward Solving Social Issues

In addition to the capability for technological innovation, Kao's drive for sustainable growth is supported by a *Consumer Driven* approach.

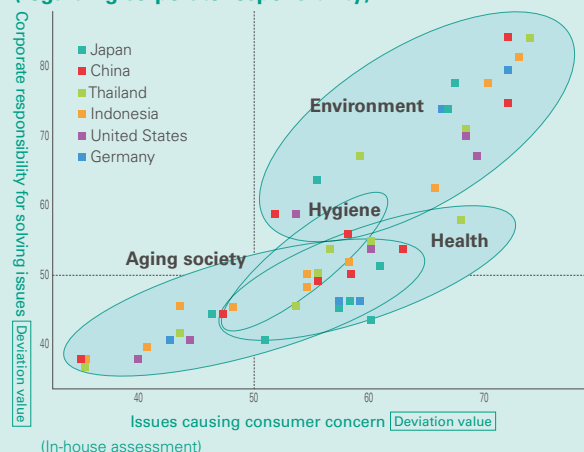
More than ever, concerned consumers worldwide expect corporations to help solve social issues. These include contributions to resolving environmental issues, from waste disposal to the destruction of the natural environment; contributions to health, such as ways to prevent lifestyle diseases; responses to the needs of an aging society, from enhanced self-reliance to extending quality of life; and contributions to the field of hygiene, including disease prevention.

By fully utilizing our corporate assets, we firmly believe we can make contributions to addressing these kinds of social issues.

## Continued Commitment to Sustained Profitable Growth as the Engine That Drives Even Greater Social Benefits

K20, the Kao Group Mid-term Plan that started from FY2017, takes Kao to a new stage that reflects its desire to benefit society as it further advances the implementation of the Kao Way.

Global Consumer Awareness of Social Issues (regarding corporate responsibility)



# History of Implementing the Kao Way

## 130 Years of Innovation

*Yoki-Monozukuri*\*1 has driven all of our activities since our founding in 1887. But no matter how much satisfaction a product may bring, it must never make a significant impact on the global environment. Going beyond our mission as lifestyle innovator, we now promote initiatives that take into consideration the environment and society as a whole.

\*1 Please refer to the notes on page 3.

## Representative Product Lineup and Initiatives

Kao has continued to bring about changes in everyday life.

### Proposing products and initiatives that give consideration to the global environment

Eco-friendly packaging and containers / Water-conserving products



**1987 Attack**  
Creates the world's first\*\*2 laundry detergent with a container that is one-fourth the size of conventional containers and can be carried with one hand

**1993 Attack**  
Shifts to light-weight packaging and containers as well as smaller box sizes

**1997 Attack**  
Shifts to foldable cartons

Initiatives for Universal Design and reducing environmental impact



**1991**  
Develops the first\*\*2 ever shampoo containers in Japan with notches so that consumers can differentiate between shampoo and conditioner containers

### Providing products that have brought about changes in everyday life by offering innovative value in clear



**1890 Kao Sekken**  
Offers a high-quality, Japanese-made soap that can be used as a face wash



**1932 Kao Shampoo**  
Offers product that establishes "shampoo" as a word in Japanese



**1951 Kao Kona Sentaku (Wonderful)**  
Offers detergent that effectively removes stains and significantly reduces the time it takes to wash clothes by hand



**1970 Merit**  
Offers a shampoo that resolves issues related to dandruff and an itchy scalp



**1978 Laurier**  
Offers a highly absorbent sanitary napkin that can be used with a high level of comfort and peace of mind

Kao has continued to bring about in-house innovations.

### ▶▶ 1960s and 70s

#### Establishing foundations

- **Sales Company System (1966)**  
Establishes sales companies specializing in the wholesale of Kao products
- **Kao ECHO System (1978)**  
Introduces system that helps to respond promptly and accurately to consumer inquiries and complaints while accumulating relevant information in a data base; this system is also useful for product development



Providing products in everyday life that make consumers healthier and more beautiful amid the rising importance of health value



**2003**  
**Healthy Green Tea**  
Offers the first\*<sup>2</sup> ever FOSHU-type\*<sup>3</sup> tea in Japan that helps prevent lifestyle diseases



**2007**  
**Segreta**  
Offers a series of hair care products that meet the needs of changing hairstyles of women over 50



**2013**  
**Healthy Coffee**  
Offers FOSHU-type\*<sup>3</sup> coffee that has been proven effective in helping to burn fat



**2015**  
**SOFINA iP**  
Offers cosmetics brands that change the skin maintenance process from the very first steps using holistic beauty science

Providing products that have brought about change in everyday life through the pursuit of comfort, simplicity, and convenience while catering to individual lifestyles



**1994**  
**Aube**  
Offers a lipstick that does not smudge, thereby introducing new functional value



**1994**  
**Quickle Wiper**  
Offers a new cleaning product that allows for simple and quiet cleaning, thus introducing new cleaning habits



**1996**  
**Bioré Pore Pack**  
Creates new facial sheet market with sheets that clean clogged pores with ease



**2004**  
**John Frieda Brilliant Brunette**  
Offers hair coloring that allows consumers to easily use salon technology at home to bring out their hair color (United States)



**2005**  
**MegRhythm**  
Offers a new kind of lifestyle that allows consumers to relax by warming themselves with steam.



**2005**  
**Jergens Natural Glow**  
Offers a body lotion with suntanning effects, thereby creating a new market (United States)

Environment and society

**2004**  
**Attack**  
Develops paper containers without hand straps or rivets



**2009**  
**Attack Neo**  
Offers a liquid laundry detergent that encourages eco-friendly habits, starting with single-rinse options

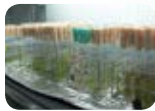
**2010**  
**Merit**  
Offers a new kind of shampoo that requires less water

**2014**  
**CuCute**  
Offers a dishwashing detergent with powerful cleaning properties and can be rinsed easily



**2016**  
**Raku-raku Eco Pack Refill**  
Creates an eco-pack that makes it easier for all consumers, from children to the elderly, to fully refill containers of shampoo, conditioner, and other liquids

**2011**  
Commences trial television commercials with subtitles



**2014**  
Successfully extracts oil materials from algae, becoming one of world's first\*<sup>2</sup> companies to do so



**2016**  
Reduces environmental impact through the world's first\*<sup>2</sup> ink technology with a VOC-free design

Cleanliness, hygiene, and beauty



**1980**  
**Bioré Facial Foam**  
Offers a facial wash geared toward junior high school students worried about acne that does not leave the skin feeling tense after washing



**1982**  
**Kao Sofina**  
Offers cosmetics created through a scientific approach based on skin science



**1983**  
**Merries**  
Offers baby diapers that are highly absorbent and guard against leaks, allowing babies and their parents to sleep soundly through the night



**2011**  
**Laurier (Active Day)**  
Offers a new kind of Laurier sanitary napkin that caters to consumer lifestyles (Malaysia, Indonesia)



**2013**  
**Merries Shun Shuang Tou Qi (Extra Dry)**  
Offers diapers for babies market that are highly absorbent and have excellent breathability (China)



**2016**  
**CuCute CLEAR Foam Spray**  
Offers dishwashing detergent in a spray form that removes stains in areas that cannot be reached with a sponge

►► 1980s and 90s

Diversification and reinforcement

- Changes name from Kao Soap Co., Ltd. to Kao Corporation to reflect business diversification (1985)
- Acquires ISO 14001 (1998)  
Kashima plant is the first facility to acquire ISO certification, followed by other plants
- Introduces EVA<sup>®</sup>\*<sup>4</sup> as main management metric (1999)
- Reforms personnel system to promote global management (1999)

►► 2000 and onward

Developing a global presence

- Establishes the Kao Way (2004)
- Announces the Kao Health Declaration (2008)
- Announces the Kao Environmental Statement (2009)
- Announces the Kao Sustainability Statement (2013)
- Enhances corporate governance  
Appoints independent outside director as chairman of the Board of Directors (2014)

\*2 In-house assessment

\*3 FOSHU: Food for Specified Health Use

\*4 EVA<sup>®</sup> is a registered trademark of Stern Stewart & Co.

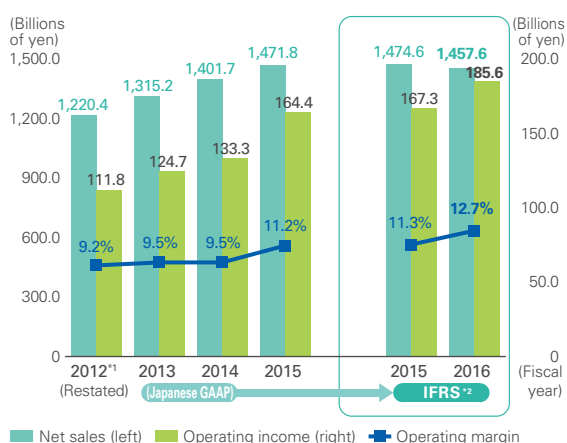
# Results of Implementing the Kao Way

## Sustained Profitable Growth and Contributions to Social Sustainability

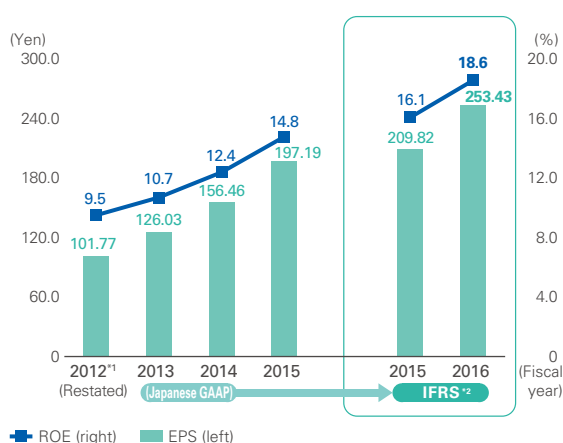
Kao firmly believes that steadfast development of business and social activities based on a solid corporate philosophy will certainly bear results. We strive to maximize corporate value through management methods that take into account the cost of capital. Our ongoing maximization of asset utilization and active investment efforts have led to sustainable growth. As of FY2016, profits have grown for seven consecutive periods, and dividends have grown for 27.

### Results of Kao's Financial Activities

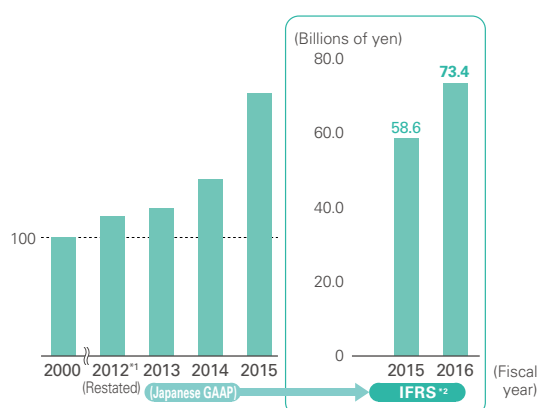
#### Net Sales / Operating Income / Operating Margin



#### ROE<sup>\*3</sup> / EPS<sup>\*4</sup>

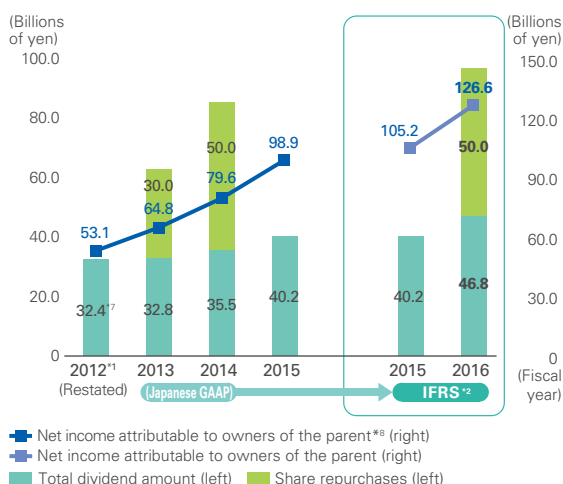


#### EVA<sup>\*5</sup>



EVA under Japanese GAAP is presented as an index with 100 representing the fiscal year ended March 31, 2000.

#### Net Income Attributable to Owners of the Parent / Shareholder Returns<sup>\*6</sup>



\*1 As Kao changed its fiscal year end for FY2012 from March 31 to December 31, the term of consolidation for FY2012 consists of a 9-month period. The figures for FY2012 (restated) have been adjusted to reflect the performance of Kao Group companies, which had previously ended their fiscal year on March 31, over the 12-month period from January 1, 2012 to December 31, 2012.

\*2 The Kao Group adopted IFRS for the fiscal year ended December 31, 2016.

\*3 Ratio of net income to net assets, excluding non-controlling interests and stock acquisition rights (Japanese GAAP) / Ratio of net income to equity attributable to owners of the parent (IFRS)

\*4 Net income per share (Japanese GAAP) / Basic earnings per share (IFRS)

\*5 EVA<sup>®</sup> is a registered trademark of Stern Stewart & Co.

\*6 Excludes repurchase of shares of less than one trading unit

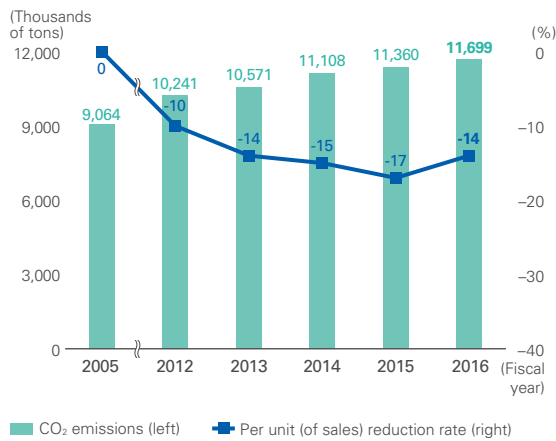
\*7 Dividend of retained earnings for FY2012 (April 1, 2012–December 31, 2012)

\*8 The Kao Group has adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and other standards. Accordingly, "net income" has been changed to "net income attributable to owners of the parent."

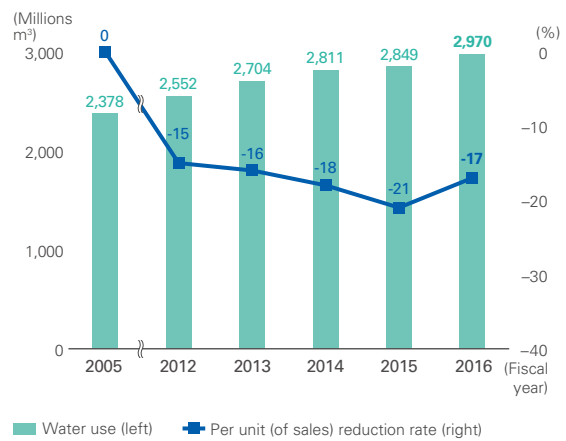
We have been proceeding with a variety of initiatives based on the Kao Sustainability Statement. In terms of adding social value, Kao is achieving steady results, particularly in reducing environmental impacts across the product lifecycle, offering products in consideration of consumer diversity, and implementing educational activities.

## Results of Kao's Non-Financial Activities

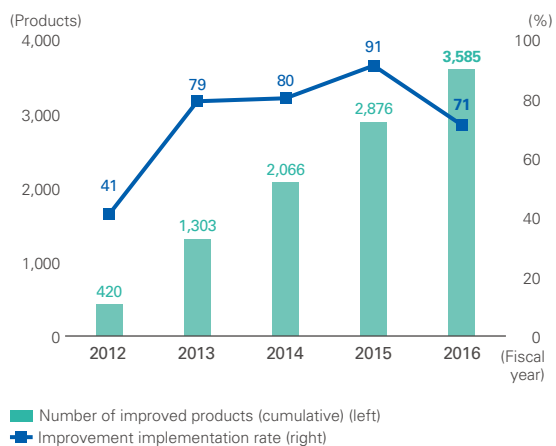
**CO<sub>2</sub> Emissions across the Product Lifecycle\*<sup>9</sup>**



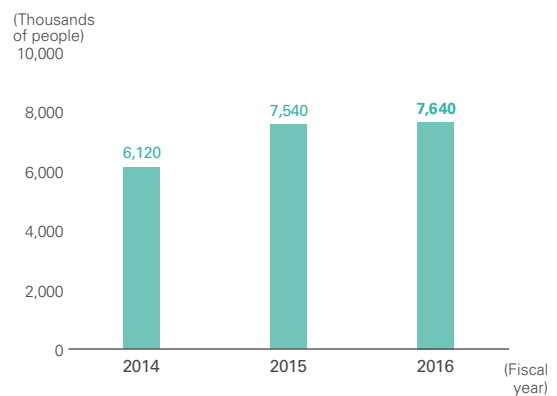
**Water Use across the Product Lifecycle\*<sup>10</sup>**



**Products Improved with Universal Design Considerations\*<sup>11</sup>**



**Participants in Educational Programs for Hygiene Habits\*<sup>12</sup>**



\*<sup>9</sup> "CO<sub>2</sub> emissions across the product lifecycle" is defined as the combined total for the amount of lifecycle emissions of individual consumer products, excluding emissions during manufacturing and distribution, multiplied by their annual sales quantity globally, and the amount of emissions from manufacturing and distribution.

\*<sup>10</sup> "Water use across the product lifecycle" is defined by multiplying lifecycle water use of individual consumer products by their annual sales quantity globally.

\*<sup>11</sup> "Products improved with Universal Design considerations" represent products that were improved giving consideration to accessibility, safety, and usability. The "improvement implementation rate" is the percentage of products improved with consideration to UD among all new and improved product items. The data until 2015 covers Japan, and since 2016 we have included Japan and the Americas.

\*<sup>12</sup> Participants in the educational programs for infant care, hand washing, hair washing, laundry and cleaning, and menstrual hygiene (including the delivery of educational samples and tools) in Japan and the rest of Asia

## A Message to Our Stakeholders



# Solidifying Sustainable Growth: The Next Step Forward

In FY2017, we will enter the next stage in our implementation of *Yoki-Monozukuri* with Kao Group Mid-term Plan K20, Kao's new mid-term plan covering the four-year period ending FY2020.

In addition to continuing to improve our financial performance and maintain record profits, we will be more proactive in providing unique value to enrich people's lives. We will also accelerate our initiatives aimed at resolving social issues related to the environment, health, aging, and hygiene.

Sustainable growth will allow us to return value to our shareholders, employees, customers, and society as a whole. We hope that all of our stakeholders will appreciate the essential role that Kao plays in the world. Using Kao's unique strengths to further our global presence, we hope to enhance our worldwide reputation and continue to be a company that inspires pride in each and every one of our employees.

## Transforming ourselves to drive change and generate significant growth



Representative Director,  
President and Chief Executive Officer

# An Interview with the President and CEO

Q

1

Kao has established a firm foundation for sustainable growth. What strengths and strategies helped Kao accomplish this?

We positioned FY2016 as a year in which to realize our announced forecasts, such as growth in sales and profit for the seventh consecutive year, as well as in which to prepare for K20, our new mid-term plan that began in FY2017. Throughout FY2016, we carried out our business activities in accordance with these goals.

As a result, sales increased on a like-for-like basis, despite being at a lower level than that of the previous fiscal year due to the impact of foreign currency translations and other factors. Moreover, operating income, income before income taxes, and net income all exceeded the previous fiscal year's figures.\*<sup>1</sup> In fact, FY2016 was the fourth consecutive year in which we realized record highs for operating income.

In addition, we have promoted efforts to conserve the planet. These include reducing Group-wide CO<sub>2</sub> emissions by 14% and water consumption by 17%, on a per unit of sales basis over the last 10 years. There are three components that I believe are essential for continued growth in a volatile business environment. At Kao, we have worked to sharpen our competitive edge through each of these components, which I will now describe.

\*<sup>1</sup> The Kao Group adopted IFRS for the fiscal year ended December 31, 2016.

## 1. Commitments

After announcing Kao Group Mid-term Plan K15 (FY2013 to FY2015), being persistent in fulfilling our promises made under the plan became part of our commitments. Determined efforts by our managerial ranks and each member of the Kao Group resulted in reaching all of our numerical targets.

FY2016 was a year in which we prepared to embark on our mid-term plan K20, which we announced in December 2016 and covers the four-year period from FY2017 to FY2020. In FY2016, while we were unable to completely reach our announced forecast for net sales due primarily to the impact of foreign currency translations, we were able to reach all of the profit targets that we announced at the beginning of the fiscal year. Moving ahead, each employee, not just those in the managerial ranks, will continue to maintain these strong commitments to sustainable growth.

## 2. Group comprehensive strengths

Group comprehensive strengths refer to our ability to make full use of Kao Group assets. Kao has assets in research and development, supply chain management, marketing and sales, information systems, as well as in corporate affairs, such as human capital development, finance, and legal. As Kao grew in size, our recognition of these assets as the source of our growth had weakened. One of my first actions as president and CEO was to re-emphasize the need to be more aware of our assets, and I promoted strategies to leverage them to their full potential.

## 3. Self-transformation capabilities

This refers simply to our ability to bring about innovation. Ever since our founding, we have constantly considered the perspective of the consumer, engaging in product development that transcends common ways of thinking and past successes. This has led to the creation of numerous successful products. Changing our perspectives and ways of thinking brings results, and I encourage all of our employees to take on challenges without fearing failure.



Q

2

While overall Kao continues to increase its corporate value, it seems several issues remain to be tackled. Could you comment on these issues and your planned measures to address them?

We recognize three major issues that we need to address.

### Cosmetics business

Despite the fact that profitability has been gradually improving overall in the Beauty Care Business, cosmetics is an area where we still face challenges. Sofina and Kanebo are two major cosmetics brands. However, in the face of fierce competition as companies from other industries and global firms enter the market, branding and differentiation have become vital. Kao started implementing major reforms to the cosmetics business in FY2015. We have been making efforts to return to our corporate origins, reforming our cosmetics business by emphasizing the differentiated features of both Sofina and Kanebo. This process takes time, but results are steadily starting to appear and I believe the cosmetics business will eventually become a pillar of growth for us.

### Food business

*Healthya* was a pioneer beverage in the area of Food for Specified Health Use (FOSHU). However, the slow pace of our efforts in self-transformation after releasing the product allowed other companies to enter this market and take market share from us. Going forward, we will make full use of Kao's assets, aiming for a high-profit ratio in the food business. Our goals will be to develop new products (including supplements) for those affected by locomotive syndrome,<sup>\*2</sup> and to strengthen our lineup of products aimed at people with metabolic syndrome.<sup>\*3</sup>

<sup>\*2</sup> Locomotive syndrome is a condition where one or a number of motor apparatuses such as muscles, bones, joints, cartilage, and intervertebral disks, become impaired and reduce the ability to stand or walk.

<sup>\*3</sup> Metabolic syndrome is a condition where visceral fat accumulates in the abdomen leading to multiple symptoms, including high blood pressure and blood sugar as well as dyslipidemia (excess fat in blood).

### Business outside Japan

Strengthening our global response capabilities has improved our ability to grow on a continuous basis over the past several years. However, the current situation is not fully satisfactory, and expanding our business outside Japan has been a significant issue we have been facing for some time. With China and Indonesia acting as the core for growth, we will make efforts to further expand our Consumer Products Business in Asia and improve profitability. At the same time, we will work to raise the profit margin of the Consumer Products Business in the Americas and Europe and actively expand into new countries.

### Corporate Value Improvement Award Grand Prix

In February 2017, Kao received the Grand Prix at the Corporate Value Improvement Award, hosted by Tokyo Stock Exchange, Inc. (TSE). All listed companies on the TSE market (approx. 3,500) are eligible for the award, which honors companies with high corporate value and management practices deemed to contribute to the appeal of the TSE market by, for example, improving corporate value through initiatives that consider capital cost and other investor concerns.

Kao received this award in recognition of its management to enhance corporate value. Continuous growth in EVA<sup>®</sup>,<sup>\*4</sup> which is used to measure true profit by factoring in the cost of invested capital, is linked to increased corporate value, which means long-term profits not only for shareholders but for all Kao stakeholders as well.

<sup>\*4</sup> EVA<sup>®</sup> is a registered trademark of Stern Stewart & Co.



Q

3

Kao announced the new mid-term plan K20. What are your thoughts on the background to this plan and its essential points? And would you tell us what kind of company Kao is aiming to become over the long term?

By 2030, Kao plans to establish a distinctive corporate image and to exceed net sales of 2.5 trillion yen (including 1.0 trillion yen from sales outside Japan), with an operating margin of over 17% and ROE above 20%. We aim to become a company with a global presence, providing a high level of returns to all stakeholders. The K20 plan was formulated as an important milestone toward achieving our vision by 2030. Under K20, we will focus on the following three goals.

### 1. Foster a distinctive corporate image

To realize sustainable growth, we need a distinctive corporate image because we believe that such an image is the most important source of sustainable growth. Kao has contributed to society through a wide range of products, services, and social activities. Under K20, we have selected the environment, health, aging, and hygiene as the four areas in which we will strive to resolve social issues. Accelerating and strengthening our initiatives in these areas will help us create a distinctive corporate image.

To do this, we need a phrase that more vividly expresses the unique nature of Kao, supplementing and adding nuance to our corporate message of “Enriching lives, in harmony with nature.” For K20, the leading candidate is “Kao is a company that embodies *KIREI*.” In Japanese, the word *KIREI* evokes images of pristine beauty and purity. This concept has been dear to us at Kao ever since our founding. With a meaning that resonates beyond external beauty to include sound health and purity of feeling, *KIREI* is also a gentle reminder to care for our environment. The *KIREI* concept represents an ideal that guides our corporate activities as we strive to be a company that stays closely connected to the feelings of our consumers, providing products and services that satisfy and delight.

### 2. Continue profitable growth and further enhance financial value

*Integrity* is a basic value that Kao has always regarded as essential. We aim to earn the trust of global society by responding to changes with thorough enhancement of quality control, consumer consultation, compliance, and a high level of risk and crisis management. With achieving that aim as a precedent, we will remain persistent in reaching record highs for profit. We estimate that by 2020 the following measures will allow us to realize a 5% increase in the compound annual growth rate (CAGR) of like-for-like\* sales as well as an operating margin of 15%.

\* Like-for-like growth excludes the effect of currency translation.

#### ● Make full use of Kao Group assets – Stage II

##### A. Enhance and energize human capital

Human capital is the Kao Group’s most important asset, the foundation for all of the Group’s business activities as well as the source of its growth. We will continue to invest in strengthening and energizing our human capital to ensure that all Group members are able to take on the challenge of creating new value.

##### B. Continuously strengthen high-margin businesses

We will further strengthen the competitiveness and brand power of our core products with relatively high profitability. In the short term, our aim is to rapidly establish three 100 billion yen brands: *Merries* baby diapers, *Attack* laundry detergents, and *Bioré* skin care products.

##### C. Expand and improve the margin for the Consumer Products Business in Asia

Under K20, we aim to reach 250 billion yen in net sales and an operating margin of 10%, with China and Indonesia providing the core for growth.



### ● Maximize Kao Group assets

We have yet to draw on our assets to their full extent, as several businesses have been facing issues in terms of profitability or growth, including cosmetics. Gradual progress has been made in strengthening our cosmetics brands and reforming this business. K20 lays out a path to reaching net sales of 300 billion yen and an operating margin of 10% for the cosmetics business. For the Consumer Products Business in the Americas and Europe, the main focus will be on improving profitability, with the aim of reaching an operating margin of 10%. In the Chemical Business, we will accelerate the creation of synergies with the Consumer Products Business. At the same time, we will strive to expand these businesses through high-value-added products.

### ● Build new assets

In addition to strengthening existing businesses by maximizing asset utilization, we will also take on the challenge of creating new businesses and building new assets, including acquisition through M&A.

We will create new businesses to leverage our strengths in both our existing and new business domains. We will also re-enter the food business with new, high-value-added products and proposals.

## 3. Accelerate returns to our stakeholders

We need to have a solid agreement on how to achieve continuous prosperity not only with our shareholders but with all of our stakeholders, from employees and customers to society as a whole. In FY2016, Kao increased cash dividends for the 27th consecutive period. Moving ahead, we will remain committed to continuous cash dividend increases.

We will ensure our commitment to all of our stakeholders, not only our shareholders but also our employees, customers, and society at large. We will continue to improve the compensation and benefits for our employees, including health care for their families as well. For our customers, we will work to maximize win-win relationships. We will expand our contributions to society through our products and services and further promote our sustainability activities including payment of taxes and employment creation. And naturally, we will continue to fulfill all of our social responsibilities as a corporation.

Under K20, by steadily pursuing the commitments and targets I have mentioned, we will come closer to realizing our vision by 2030. I would like to ask all of our stakeholders for their continued support and encouragement as we go forward.

### K20 Promotion Projects

We are undertaking five projects to help us break through existing frameworks and achieve new growth.

These projects aim to encourage our younger employees to think deeply about the future of Kao, as they will be the ones to oversee it. These projects also work toward bringing about changes on a global scale in order to strengthen Kao's global presence. We believe that encouraging individuals to seize the initiative to promote self-transformation is a sure path to creating new value. Driving changes and realizing growth are what Kao aims for as a corporation.

#### Five Projects

- 1 Innovate current procedures, approaches, and concepts
- 2 Develop a distinctive corporate image
- 3 Create Kao's future
- 4 Maintain the health of employees and their families
- 5 Apply state-of-the-art technologies and infrastructure

# Kao Group Mid-term Plan K20

## (FY2017 to FY2020)

The new mid-term plan K20 commenced in FY2017. The outline of the plan is provided below. K20 is an important milestone on the way to achieving our vision by 2030.

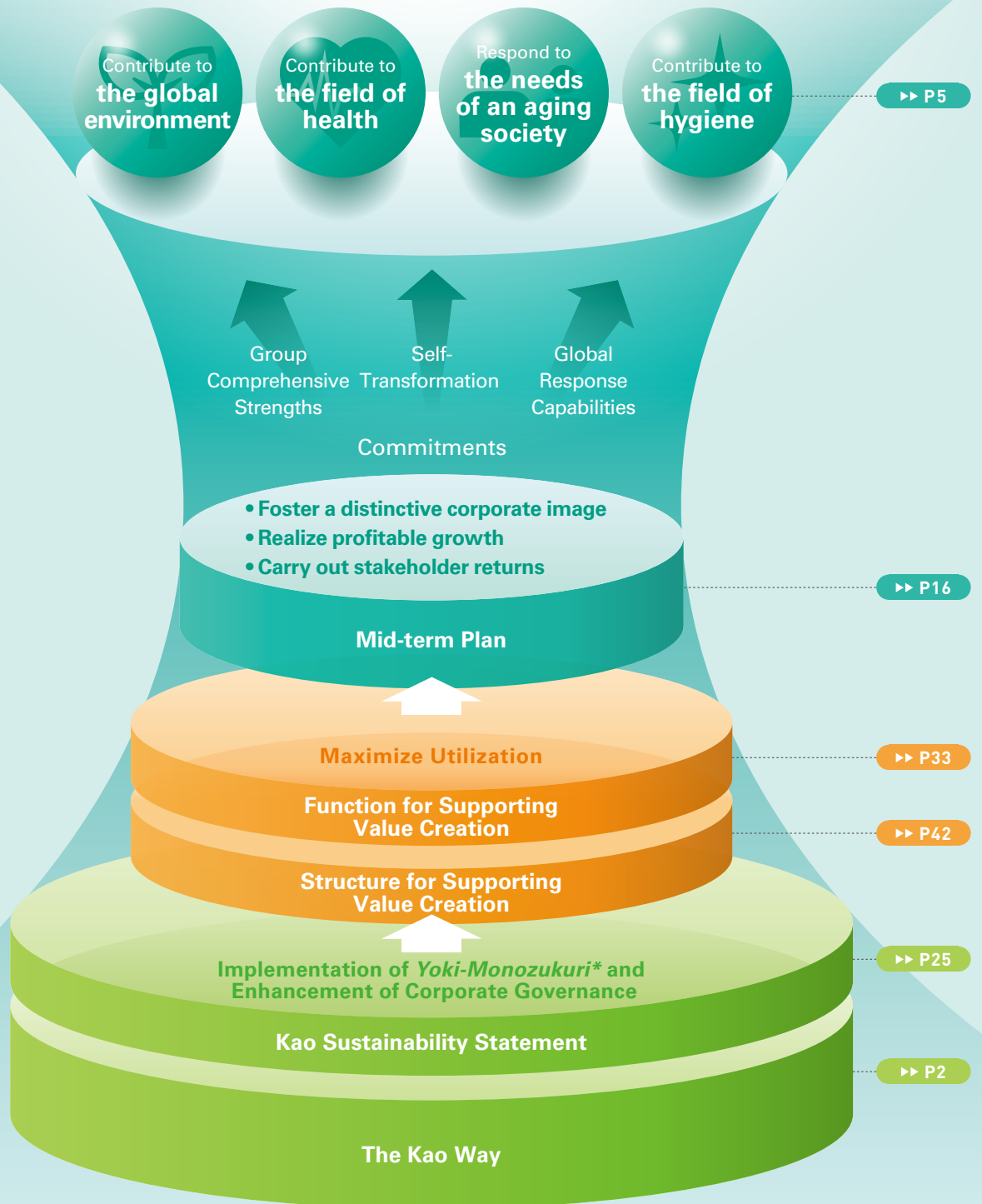
### Outline of K20, the Kao Group Mid-term Plan

<p><b>What Kao Aims to Be by 2030</b></p>	<p><b>Make Kao a Company with a Global Presence</b></p> <ul style="list-style-type: none"> <li>• <b>A distinctive corporate image</b></li> <li>• <b>A high-profit global consumer goods company that exceeds:</b> <ul style="list-style-type: none"> <li>• 2.5 trillion yen in net sales (1.0 trillion yen outside Japan)</li> <li>• 17% operating margin</li> <li>• 20% ROE*<sup>1</sup></li> </ul> </li> <li>• <b>A high level of returns to stakeholders</b></li> </ul> <p><small>*1 Ratio of net income to equity attributable to owners of the parent</small></p>
<p><b>K20 Goals Three Commitments</b></p>	<ol style="list-style-type: none"> <li><b>1 Commitment to fostering a distinctive corporate image</b> Become a company that is always by the consumer's side Proposed image: Kao is a company that embodies <i>KIREI</i>.<sup>*2</sup></li> <li><b>2 Commitment to profitable growth</b> <ul style="list-style-type: none"> <li>• Continue to set new record highs for profits</li> <li>• Aim for like-for-like<sup>*3</sup> net sales CAGR<sup>*4</sup> of +5% and operating margin of 15%</li> <li>• Three 100 billion yen brands (<i>Merries</i> baby diapers, <i>Attack</i> laundry detergents, <i>Bioré</i> skin care products)</li> </ul> </li> <li><b>3 Commitment to returns to stakeholders</b> <ul style="list-style-type: none"> <li>• Shareholders: Continuous cash dividend increases (40% payout ratio target)</li> <li>• Employees: Continuous improvement in compensation, benefits, and health support</li> <li>• Customers: Maximization of win-win relationships</li> <li>• Society: Advanced measures to address social issues</li> </ul> </li> </ol> <p><small>*2 <i>KIREI</i> is a Japanese word with a complex range of meanings, including pristine, beautiful, healthy, pure, and fair. See inside cover. *3 Like-for-like growth excludes the effect of currency translation. *4 CAGR: Compound annual growth rate</small></p>
<p><b>Main Aspects That Support Sustainable Growth</b></p>	<p><b>Commitments, Group comprehensive strengths, self-transformation, and global response capabilities</b></p>

Kao's Aims and Value Creation Process

# Make Kao a Company with a Global Presence

## Building a Distinctive Corporate Image



\* Please refer to the notes on page 3.

# Road Map for Kao's Medium-to-Long-term Vision

## — Transforming Ourselves to Drive Change —

We were able to meet all targets that we adopted in K15 (FY2013 to FY2015), Kao's first publicly announced mid-term plan. We will further accelerate efforts to achieve a global presence by 2030.

K20 is an important milestone toward achieving our vision by 2030. To realize our medium-to-long-term vision, Kao must bring about unprecedented changes by resolving social issues and expanding its value creation domains. By 2020, Kao intends to have established the foundation for accomplishing these tasks and to work toward realizing significant future growth.

— 2015 —

### Mid-term Plan K15 (FY2013 to FY2015)

#### Review of Numerical Targets and Performance

	Numerical targets	Results	Achievements
Net sales	1.40 trillion yen	1.47 trillion yen	105%
Operating income	150.0 billion yen	164.4 billion yen	110%
Sales ratio outside Japan	Over 30%	35%	Achieved

— 2020 —

### Mid-term Plan K20\*<sup>1</sup> (FY2017 to FY2020)

#### Three Commitments

- 1 Commitment to fostering a distinctive corporate image**
- 2 Commitment to profitable growth**
  - Continue to set new record highs for profits
  - Aim for like-for-like\*<sup>2</sup> net sales CAGR\*<sup>3</sup> of +5% and operating margin of 15%
  - Three 100 billion yen brands (*Merries* baby diapers, *Attack* laundry detergents, *Bioré* skin care products)
- 3 Commitment to returns to stakeholders**

Announcement and achievement of the mid-term plan

An important milestone toward achieving our vision by 2030

Current

*The creativity to offer surprise  
and change for the resolution of  
social issues and the expansion  
of value creation domains*

— What Kao Aims to Be by 2030\*<sup>1</sup> —

## Make Kao a Company with a Global Presence

- 1 A distinctive corporate image**
- 2 A high-profit global consumer goods company that exceeds:**
  - 2.5 trillion yen in net sales  
(1.0 trillion yen outside Japan)
  - 17% operating margin
  - 20% ROE\*<sup>4</sup>
- 3 A high level of returns to stakeholders**

**The ability to realize  
sustainable increases in  
profits and dividends**

\*<sup>1</sup> For the period between 2020 and 2030, Kao may develop a separate action plan to tie these two plans together.

\*<sup>2</sup> Like-for-like growth excludes the effect of currency translation.

\*<sup>3</sup> CAGR: Compound annual growth rate

\*<sup>4</sup> Ratio of net income to equity attributable to owners of the parent



1

PART

## Activities to Expand New Value Creation

To generate the change necessary to realize Kao's medium-to-long-term vision, it is essential to boldly expand our traditional areas of activity. This section provides specific examples of the ways we are working to expand the scope of our social contribution activities, unconstrained by pre-existing business areas, as well as the ways we are accelerating global expansion in order to contribute to the creation of a prosperous life for even more people.

# Conveying Beauty to the World

— New Value Creation That Goes Beyond Existing Domains —

## Research and Development to Brighten Up Brand Identity and Create Value That Goes Beyond Existing Domains

In 1982, Sofina was introduced as a cosmetics brand backed by skin science and offering tangible results. In 2016, the cosmetics business of Kanebo celebrated its 80th anniversary. Since the founding, it has maintained an approach focused not only on function but also on the creation of products that engage the user on an emotional level. Sofina and Kanebo have each achieved unique positions. However, amid significant changes in market structure, including the proliferation of beauty websites and magazines, the entrance into the cosmetics market by companies in different industries, and competition that goes beyond sales channels, some of that brand identity has unfortunately been lost.

To return to the fundamental technologies that Sofina and Kanebo were founded on and fine-tune what distinguishes their brands, we reexamined the state of our basic and product development research. We also commenced R&D activities that strive for new beauty creation and innovation based on research regarding Holistic Beauty Science and Total Sensory Design.



## Establishing Beauty Research and Innovation Center

In fall 2016, Kao combined its fundamental technology research and product development research for cosmetics at the Odawara Complex. This facility contains an fMRI,\*<sup>1</sup> which can quantify the human sense of touch by measuring brain activity. In addition, we have established the COCOLAB research facility, which helps researchers gain inspiration through a variety of equipment designed to test sensitivity levels. We hope to create exciting innovations through the Holistic Beauty Science approach of Sofina and the Total Sensory Design of Kanebo.



\*1 Functional magnetic resonance imaging (fMRI) is a method for visualizing hemodynamic reactions that uses MRIs to read brain and spinal cord activity in people and animals.



Based on Kao's research on Holistic Beauty Science, Sofina has transformed into a brand that takes a whole-body approach to skin care and offers proposals for regenerating consumers' natural beauty. Blending perspectives from skin science and health science, Sofina will further evolve as a brand that exemplifies Holistic Beauty Science research.



Kanebo is changing and evolving to become a brand based on skin science and *kansei* science, a term incorporating the Japanese word for sensitivity. The brand now helps support an all-around sensory experience that encourages women to enjoy their beauty. This experience is symbolized by the newly launched *KANEBO* brand, which is developing into a brand that is preferred by people around the world and represents a symbol for all Kanebo brands.

# Expanding Globally—Kao's Business in Asia

## — Continued High Growth and Active Development in New Countries —

### Achieving High Growth through Active Investment and Efforts to Strengthen Revenue Base

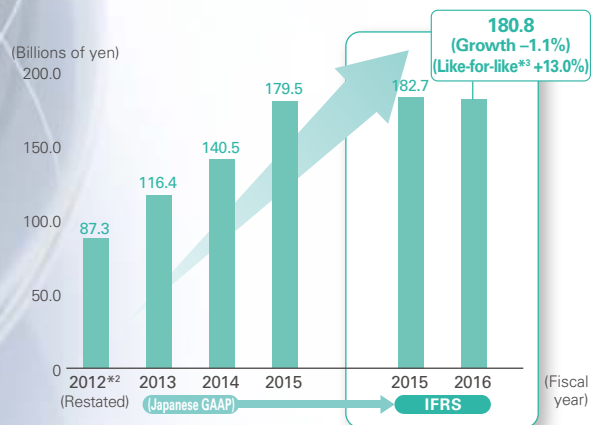
Due to an economic slowdown in emerging economies including China, in addition to such factors as rapid foreign currency fluctuations, the Brexit decision and the threat of frequent terrorist attacks, the future of the global economy is still unclear. Under these circumstances, Kao has achieved high growth as a result of active investment in growth markets and the strengthening of its revenue base in the Greater China and ASEAN regions.

Moving forward, with the flow of people, goods, and information between Japan and the Chinese-speaking world (China, Hong Kong, and Taiwan), as well as the heightened trust in and need for Japanese products, Kao will bolster a global management structure consistent with that of its domestic business and work toward even higher growth by promoting further developments in the massive market of China.

Furthermore, Kao is pursuing growth in the ASEAN region by expanding the product lineup for middle class consumers in the growth markets of Indonesia and Vietnam, as well as expanding business development into countries neighboring the ASEAN region. To expand market participation in new countries where we currently do not have physical locations, we will make use of local distributors and e-commerce and promote collaborative efforts with global and Japanese retailers with which Kao already has business relationships.



Sales of the Consumer Products Business in Asia\*1



\*1 The graph presents net sales before elimination of transactions among geographic areas.

\*2 As Kao changed its fiscal year end for FY2012 from March 31 to December 31, the term of consolidation for FY2012 consists of a 9-month period. The figures for FY2012 (restated) have been adjusted to reflect the performance of Kao Group companies, which had previously ended their fiscal year on March 31, over the 12-month period from January 1, 2012 to December 31, 2012.

\*3 Like-for-like growth excludes the effect of currency translation.



## Product Development That Reflects the Needs of Local Consumers

Kao's mission is to consistently pursue *Yoki-Monozukuri*\* and offer new value in addressing social issues globally. We have been selling products that grasp changing markets, lifestyles, and customs, and offer a means to a richer and more comfortable life through our unique technology. Moving forward, Kao will carefully observe market situations and lifestyles of local consumers to accurately get a sense of their characteristics and nature, in accordance with a *Consumer Driven* approach and *Genba*-ism, as stated in the Kao Way. By doing so, we will further strengthen our efforts to bring area innovations in Asia and throughout the rest of the world.

\* Please refer to the notes on page 3.

### — The Greater China Region —

#### Solid Performance in the Cosmetics Business through Proposals for Products Designed with Area Innovation

The cosmetics market in Taiwan centers on the young generation. Compared to the Japanese consumer, Taiwanese consumers prefer a light coverage, long-lasting foundation. The *Sofina Primavista Ange* series was created with Sofina's anti-smudge technology and launched in 2013 to provide an affordable product that addressed the needs of young Taiwanese consumers.

In the hot and humid climate of Taiwan, the long-lasting qualities of *Sofina Primavista Ange* have received high praise. That is why *Sofina Primavista Ange* has become Taiwan's best-selling foundation since 2015.

Meanwhile, the *KATE* series has added *Powdery Mousse BB*, a light mousse foundation that changes into powder, to the lineup. In response to the Asian consumer's preference for strong coloration and smooth color application, *Deep Shiny Eyes* and *Smooth Color Rouge* were launched as Asian exclusives. As a result, *KATE* has maintained double-digit sales growth.

#### Foundation Series *Sofina Primavista Ange*

March 2013  
Taiwan  
Product  
launch



#### Makeup *KATE TOKYO* Campaign

February  
2014  
Promoted  
throughout  
Asia



#### Laundry Detergent *Attack Jaz1*

June 2014  
Indonesia  
Product  
launch

Hard water in Indonesia makes removing stains difficult. Many consumers first soak clothes for extended periods and use cream-type detergents before scrubbing and washing by hand, resulting in an environment that makes doing laundry a difficult task. Kao has developed technology to automatically break up stains through soaking alone. *Attack Jaz1* simplifies the laundry process through superior cleaning power, even in hard Indonesian water, thus earning strong approval from Indonesian consumers. We are increasing production facilities at the Karawang plant in West Java and expanding sales across Indonesia.

### — The ASEAN Region —

#### Contributions to Improved Sales from Baby Diapers and Laundry Detergent for Middle Class

##### Baby Diapers

##### *Merries Good Skin Pants*

In hot and humid Indonesia, *Merries Good Skin Pants* provide just what the name implies—superior breathability, which is extremely popular with Indonesian consumers as it ensures that skin is always dry and smooth.

Since the diapers' release in 2014, shipments have been steady, leading to the addition of a local manufacturing line in 2015. Moving forward, Kao plans to increase these kinds of facilities along with shipments.



September  
2014  
Indonesia  
Product  
launch



# 2

PART

## Activities to Generate Change Beneficial to Society

Kao strives to continuously address social issues through business activities aimed at contributing to the creation of a sustainable society, while at the same time expanding its business domains and accelerating global development.

This part contains detailed explanations of this approach and related strategies.



# Kao's Sustainability Activities

## Contributing to the Resolution of Social Issues through *Yoki-Monozukuri*\*

*Yoki-Monozukuri* as defined in Kao's corporate philosophy, the Kao Way, is the source of Kao's sustainability activities.

The Kao Way states Kao's mission as to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world by conducting *Yoki-Monozukuri*. On the basis of this mission, Kao is combining its employees' passion and power to work on resolutions to social issues through innovative products and services in product fields that are valuable to a clean, beautiful, and healthy life, as well as in industrial products that contribute to developments in various industries.

\* Please refer to the notes on page 3.



## Four Social Issues toward Which Kao Focuses Its Efforts: The Environment, Health, Aging, and Hygiene

The environment, health, aging, and hygiene are regarded as social issues toward which Kao focuses its efforts based on societal and stakeholder needs and expectations as well as on Kao's medium-to-long-term business strategies. We contribute to the resolution of these four issues through our "Conservation" and "Community" activities, two out of three key areas addressed in the Kao Sustainability Statement.

Furthermore, the UN General Assembly adopted the Sustainable Development Goals (SDGs) in September 2015 as an indication of social issues that the international community should take steps to address. Among the 17 SDGs, Kao is contributing to the realization of those that relate to Kao's business activities through initiatives within the three key areas of the Kao Sustainability Statement.



# Conservation

## Kao's Approach

Climate change has brought about the acceleration of extreme weather, rises in sea levels, changes in ecosystems, and an increased risk of infectious disease on a global scale. This is an urgent issue that needs to be addressed by the international community at large. In December 2015, the 196 countries that participated in COP21 negotiated the Paris Agreement to hold the increase in the global average temperature below 2°C.

In the Kao Environmental Statement announced in 2009, we declared our commitment to decreasing the environmental impact across the product lifecycle, from procurement of raw materials through manufacturing, transport, use, and disposal. We are promoting "eco together" in collaboration with our varied stakeholders, including consumers, business partners, and society as a whole. Amid the various stages of a product's lifecycle, the use stage, in particular, imposes a heavy burden on the environment. To that end, we are developing and offering products that reduce CO<sub>2</sub> emissions and water consumption during the use stage.

In the Kao Environmental Statement, we also asserted our commitment to sound management of chemicals in accordance with international frameworks and measures for biodiversity conservation through responsible raw material procurement.



## Reducing CO<sub>2</sub> Emissions across the Product Lifecycle

Social issues toward which Kao focuses its efforts

Contributes to the global environment

### 1. Development, Manufacture, Sales, and Distribution Stages

Kao is working toward more efficient energy usage and the adoption of energy sources with low environmental impact in R&D facilities, factories, logistics centers, and offices to reduce CO<sub>2</sub> emissions from fossil fuels. In factories, we are making efforts to improve fuel efficiency through the introduction of energy-saving equipment and sophisticated controls to make sure that high pressure steam boilers function efficiently and steam is used effectively. Moreover, we are actively introducing the use of natural gas, a representative low-carbon fuel, in our factories. And in factories that use relatively little steam, we are proceeding with the complete elimination of fossil fuels, including natural gas.

These energy reduction efforts are linked to decreased CO<sub>2</sub> emissions and costs. In FY2016, they have each resulted in an annual reduction in CO<sub>2</sub> emissions of about 2,900 tons and about 100 million yen in annual cost reductions.

In an effort to use electricity with lower environmental impact, Kao Chemicals GmbH, Molton Brown Limited, and other plants have been purchasing 100% of their electricity from renewable sources. We are also shifting to ship and rail transport for our products, as they produce a smaller burden on the environment than trucks.



Fatty Chemical (Malaysia) factory undertaking initiatives to use steam more effectively

## 2. Use Stage

In the product lifecycle, the use stage produces the most CO<sub>2</sub> emissions. For that reason, Kao offers water-saving products to reduce CO<sub>2</sub> emissions generated during the use stage. *Attack Neo*, an ultra-concentrated liquid laundry detergent, was launched in 2009. Due to the introduction of new cleansing agents, it requires only one rinse cycle, thus saving water. Following up on the success of *Attack Neo*, Kao launched *Ultra Attack Neo* in 2013, which permits the use of even faster speed settings on washing machines. Kao is also selling water-saving liquid laundry detergents in seven countries and regions, including China and Australia where water scarcity is a social issue.

Using technology with both high cleansing power and reduced environmental impact, Kao has released a variety of water-saving products, such as *Merit Shampoo* in 2010, *CuCute* dishwashing detergent in 2014, and *Bath Magiclean* bathroom cleaning liquid in August 2015.

Products that have met Kao's independent standards for minimal environmental impact display the "eco together" logo. In FY2016, the sales ratio for consumer products bearing the "eco together" logo in Japan reached 29%.

## 3. Disposal and Recycling Stages

In the disposal stage, Kao aims for the development of products with packaging that have minimal environmental impact, in keeping with our definition of the 4Rs (Reduce, Renewable, Reuse, and Recycle). Technology development initiatives are centered on our Packaging Development Research and carried out in collaboration with suppliers.

To "Reduce" resources used in packaging, Kao has conducted thorough efforts to make products more concentrated and bottles thinner, all with the goal of trimming package weight. As "Renewable" components, Kao has introduced the use of bioplastics derived from renewable plant sources, such as polylactic acid and bio-polyethylene. To "Reuse," Kao has developed refillable products with packaging such as bottles that can be used repeatedly. To "Recycle," Kao is moving forward with the introduction and use of recycled materials, including recycled paper and resin.

Reducing materials used in packaging not only decreases environmental impacts but is also linked to lower costs. In FY2016, these efforts have resulted in an annual reduction in CO<sub>2</sub> emissions of about 150 tons and about 100 million yen in annual cost reductions.

### Water-Saving Product

#### *CuCute* Dishwashing Detergent



A unique hybrid wash formula creates rich foam and rinses quickly, breaking down even stuck-on grease into fine particles and conserving water by about 20%.

### Environmentally Conscious Refill Product

#### *Raku-raku Eco Pack Refill*



The film component is about 18% thinner and the spout is made from approximately 50% plant-based polyethylene, leading to a 3% decrease in CO<sub>2</sub> emissions. Also, the product can be refilled without leakage or residue.

# Community

## Kao's Approach

The UN General Assembly adopted the Sustainable Development Goals (SDGs), which consist of 17 Global Goals and 169 targets for eliminating poverty, hunger, inequality, and discrimination and ensuring continued global progress. These goals are targets to be achieved by 2030.

Kao is supporting healthy living by taking on social issues in such areas as the environment, health, aging, and hygiene through products and services developed from its cultivated technology. Not only do we provide products, we also collaborate with local communities and NPOs in activities such as hand washing lessons in order to develop proper personal hygiene habits for children. Furthermore, we are moving forward with a variety of initiatives to help people live healthy lives even into old age, as Japan is foremost in the world when it comes to a super-aging society.

## For a Society Where Cleanness and Hygiene Are the Norm

Social issues toward which Kao focuses its efforts

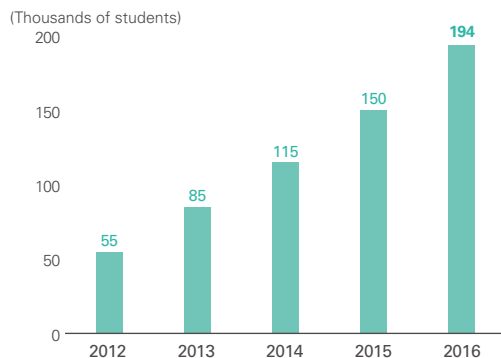
Contribute to the field of hygiene

The launch of *Kao Sekken* (Kao Soap) in 1890 is where Kao's commitment to supporting clean living began. We contribute to worldwide personal hygiene through our wide range of products and are also involved in a variety of activities to instill proper hygiene habits in the next generation of children in Japan and the rest of Asia.

### 1. Hand Washing Lessons

Hand washing is one of the simplest and most effective ways to prevent the spread of infectious diseases. However, many children have not mastered proper hand washing techniques. Since 2009, Kao employees

#### Total Number of Children Participating in Hand Washing Lessons\*



\* Data covers Japan, Taiwan, Thailand, and Indonesia.

have visited elementary schools in Japan to conduct hand washing lessons where children can learn the proper techniques in a fun way. Kao has also been expanding activities in other Asian countries and regions, such as Taiwan, Thailand, and Indonesia, since 2011.



Hand washing lesson in Taiwan

### 2. Menstrual Hygiene Education

In Japan, Kao has been providing support activities for education on the start of menstruation for more than 30 years since the launch of *Laurier* sanitary napkins. These activities can be mainly divided into three areas: providing free menstruation educational kits, operating an informational website, and holding educational lectures on beginning menstruation.

In other Asian countries, for example, in Indonesia, public menstrual hygiene education is only provided at some private schools. So partnering with NPOs and other groups, we have been providing menstrual hygiene education to second graders of junior high schools since 2007. Educational activities include storytelling using sets of pictures to explain the mechanism of menstruation and providing educational pamphlets on beginning menstruation and menstruation calendars. Kao has been conducting menstrual education activities in other Asian countries as well.



Menstrual hygiene education in Indonesia

## For a Healthy Society Where Everyone Can Live Cheerfully

Social issues toward which Kao focuses its efforts

Contribute to the field of health

Respond to the needs of an aging society

### Contributing to Healthy Lifestyles

*Healthya Green Tea* was launched in 2003 as a Food for Specified Health Use (FOSHU) with high catechin content that makes it easier to burn body fat. With the idea of supporting everyday improvements in daily habits that fit easily into our consumers' lifestyles, we later added *Healthya Water* and *Healthya GOKOKU-MEGUMI-CHA* (Blend Tea) to the *Healthya* series. In 2016, Kao revamped *Healthya Green Tea* after it became the first FOSHU-type beverage approved on the claim that it "increases the ability to metabolize fat and helps to reduce body fat."

Meanwhile, Kao supports initiatives to increase healthy life expectancies in collaboration with local communities by sharing health-related research expertise, particularly tools that highlight health issues, such as visceral fat measurement methods and gait analysis systems.

For instance, Kao is responsible for the planning and administration of the "project for the promotion of health visualization in work places," which supports health promotion efforts in offices in small to mid-sized companies in Oita Prefecture. In Miyazaki and seven other prefectures, Kao held events named "Kao visceral fat check station." Seminars and visceral fat measurement were conducted at these events.

By virtue of these activities, Kao was accredited by Oita Prefecture as a "company that supports the pursuit of the longest healthy life expectancy in Japan," in August 2016. In September of the same year, Kao concluded the "partnership agreement to help create a society of health and longevity" with Miyazaki Prefecture.



Seminar on visceral fat

## Development of Products Easy to Use for Everyone While Contributing to Social Inclusion through Such Products

Social issues toward which Kao focuses its efforts

Respond to the needs of an aging society

### Universal Design Initiatives

Along with pursuing "user-friendly products" that are easy and straightforward to use for as many people as possible, Kao also aims to contribute to "social inclusion" through its products, fostering relationships between individuals, as well as between individuals and society. Consumers have become more diverse in recent years in terms of population composition and lifestyle, including an aging society and an increase in men taking on housework and childcare roles. For that reason, we are continuously sharing customer feedback and requests with the relevant divisions and pursuing product improvements from a Universal Design perspective.

For example, the *Raku-raku Eco Pack Refill*, a refill pack with cap for refilling high viscosity liquids such as shampoos and conditioners, was released in 2016. By setting the refill pack upside down on the mouth of the original bottle, liquid flows down into the bottle quickly, without leakage or residue. We have received positive consumer feedback, including such comments as "I could refill without spilling a drop" and "I enjoy refilling now but before I hated it."

### *Raku-raku Eco Pack Refill*



Inserts snugly upside down, stable and spill-proof



Rolls up to the top to prevent waste

# Culture

## Kao's Approach

As a consequence of changes in social environments, including the effects of globalization, the active role of diverse employees has become an important element of corporate growth. We at Kao believe that diverse employees exercising their own abilities and characteristics to the utmost add to our cumulative strength. For that reason, we are pursuing the creation of an environment and culture conducive to those ideals. Moreover, it is thanks to the health of our employees and their families that business development occurs. This belief has led Kao to promote the use of the PDCA (Plan, Do, Check, and Act) cycle in order to improve employee health.

Meanwhile, because value chains are expanding globally, concerns over working conditions and human rights are emerging in the relationships with various local communities and business connections. Accordingly, regulations must be complied with not only within Kao itself but throughout the entire value chain. There is also a need to promote responsible corporate activities that emphasize employee safety and respect for human rights. Kao promotes sound business activities with *Integrity* as the foundation of its compliance, as stated in the Kao Way. In regard to human rights, the Kao Human Rights Policy was established in order for Kao to promote initiatives in pursuit of respect for human rights in its overall business.

## Fostering a Positive Corporate Culture

### 1. Employee Diversity

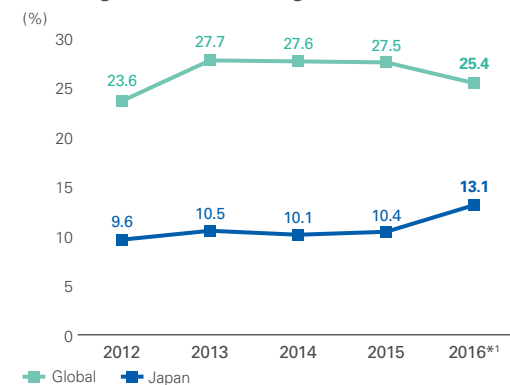
To encourage employee development, Kao offers a variety of skills development opportunities based on organizational targets and employee motivation. At the same time, each and every employee is evaluated fairly based on their performance. Kao makes efforts to develop and promote highly motivated and capable employees.

These efforts have led to expanded roles and job categories of female employees. In Japan, two of the executive officers and an Audit & Supervisory Board Member are women and the proportion of women in management positions has been increasing since 2000. In the Americas, Europe, and the rest of Asia, the proportion of women in management positions is almost the same with that of total women employees in each region.

Moreover, Kao is working to support its diverse employees in working enthusiastically and living a full life through initiatives in line with the individual circumstances of each country and region.

Since 2014, Kao has begun work on initiatives for LGBT issues in Japan. Not only do we distribute an internal newsletter for all employees every year, we host lectures given by experts at various locations and provide explanations on LGBT issues within our manager training. In FY2016, we conducted related training for our beauty advisors and counselors and provided them with leaflets on LGBT issues, as they meet many customers at their sales counters.

Percentage of Female Managers at Kao



\*1 The definition of "manager" was revised in 2016 following the promotion of integrated Group management.



In-house childcare facility Merries Garden



Leaflet containing LGBT information



## 2. Respect for Human Rights

Kao's stance on respect for human rights is set out in internal rules and standards, including the Kao Business Conduct Guidelines, with initiatives being carried out accordingly. Furthermore, in pursuit of initiatives for the respect of human rights throughout the entire *Yōki-Monozukuri* process, we adopted the Kao Human Rights Policy, which is based on the UN's Guiding Principles on Business and Human Rights, in June 2015. After formulating the policy, we introduced it in the company newsletter and briefing sessions were held with each major division to instill these values Group-wide.

Our efforts for human rights due diligence,<sup>\*2</sup> focused primarily within the Group and on the supply chain, began in 2016. We conducted human rights risk assessment by utilizing Sedex, a global supplier information database, for our plants, and a customized checklist for our offices. In the supply chain, we have encouraged our suppliers to register with Sedex and provide their relevant information.

<sup>\*2</sup> Ongoing process to identify, evaluate, and avoid or mitigate impacts of corporate activities on human rights

## 3. Promoting Health and Productivity Management

At Kao, we believe that helping our employees and their families stay fit and healthy can help to ensure the successful future development of our operations. Kao released the Health Declaration for its Japanese businesses in 2008 and has been implementing Health and Productivity Management measures through the PDCA cycle. We aim to do more than just promote health management. With aspirations to foster "employees with high health literacy," we put in place a system to facilitate effective collaboration between Kao, the Health Insurance Society, occupational health staff, and external experts.

Specifically, Kao is enacting initiatives to address lifestyle-related diseases, mental health issues, smoking cessation, dealing with cancer, and women's health. These issues have led to Kao's selection for inclusion in Health & Productivity Stock Selection<sup>\*3</sup> compiled by Japan's Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange for three consecutive years, in addition to certification for Excellent Enterprise of Health and Productivity Management 2017 (White 500) under METI.

<sup>\*3</sup> Selection of companies that strategically carry out efforts with regard to their employees' health from a management perspective

### Kao's Health and Productivity Management Initiatives

Through a number of health promotion activities, we hope to increase the number of employees who work independently to improve their health, and to create workplaces that are vibrant and energetic.



# Assets That Support Kao's Value Creation

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# Function for Supporting Value Creation

## Research and Development



**Yoshihiro Hasebe**  
 Director, Managing Executive Officer  
 Senior Vice President, Research and Development

### Strengths of Kao's Research and Development Activities

#### Essential Research and Matrix Management Structure

Essential research is one of the strengths of Kao's R&D activities. This refers to the pursuit of the essence of things from a scientific standpoint. Kao possesses seeds of knowledge and technology in terms of both humans and materials. With these seeds, Kao is pursuing a wide variety of essential research. I believe that it is this kind of research that makes Kao an extremely unique company.

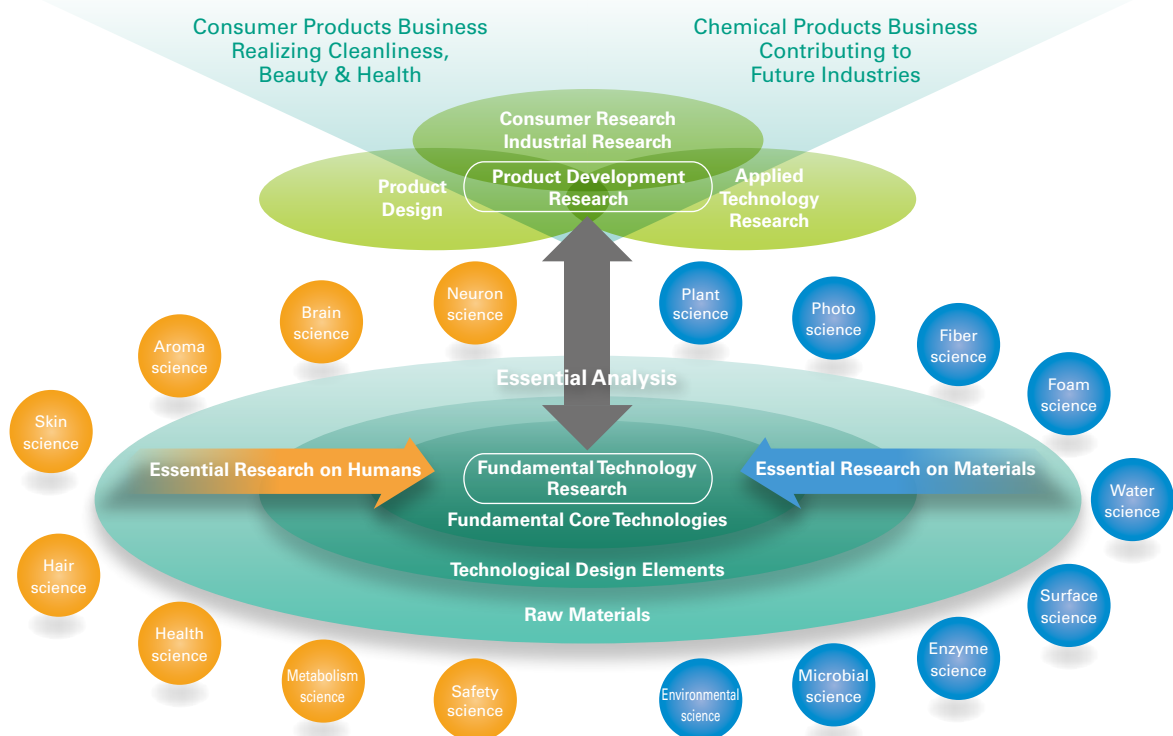
The core of Kao's technology is interface science. The control of surfaces opens up unlimited possibilities. For example, applying fabric softener to the surface of fibers makes them feel fluffy, and incorporating a mechanism that breaks down the surface of stains creates laundry detergent. If we thoroughly analyze interface science, we realize that it applies to everything, even enabling precise control of surfaces at the nano level. In fact, the nano surfactant control technology developed for our chemical

products is being used in research for our consumer products.

Our matrix management structure for fundamental technology research and product development research helps further reinforce our research and development activities. In our fundamental technology research, we thoroughly investigate the seeds of various technologies and the causes of unknown phenomena, thereby clarifying a wide variety of potential applications for our technologies. Meanwhile, for product development research, we take advantage of new materials and technologies and give thorough consideration to applying them to a wide range of fields.

Through this kind of research, we are able to give consistent consideration to the lifecycle of materials, from creation to application and disposal. We are also able to engage in a wide variety of businesses, including not only consumer products, which is a BtoC\*<sup>1</sup> business, but also chemicals, which is both a BtoB\*<sup>2</sup> and a BtoS\*<sup>3</sup> business. In these ways, our essential research and matrix management expand the range of value we offer and further enhance our strengths.

\*1 Business to consumer \*2 Business to business \*3 Business to society



Research and Development

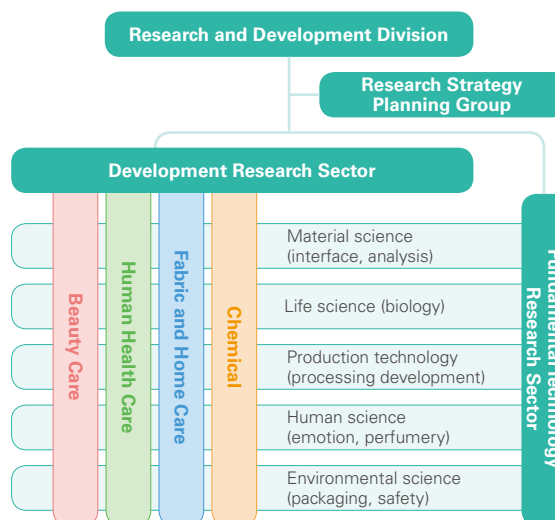
## Basic Policies and Promotion Structure for Research and Development Activities

### Three Basic Policies and Strengthening Matrix Management

Kao has adopted the following three basic policies for its R&D activities.

1. Create the seeds for new businesses
2. Bring about innovation that creates new customers in existing business domains
3. Share scientific technologies with society

Kao has reinforced its matrix management for R&D activities, which gathers knowledge and goes beyond conventional technological domains. In particular, to accelerate the creation of new businesses and bring about innovation, we established the Fundamental Technology Research Sector in 2015, which integrates all of our fundamental research into one functional unit. By integrating a wide variety of fundamental technology research into one sector, we are able to more easily integrate knowledge and technologies from a diverse range of fields to accelerate the expansion of new areas for value creation.



### Accelerating Area Innovation through Local Leadership

To accelerate the pace of area innovation, we have gathered together personnel across each country and region of operation to commence various R&D projects. We have also reinforced our Research Strategy Planning Group, which actively promotes these projects.

The key to successfully bringing out area innovation is the creation of prototypes. Being able to see a prototype with one's own eyes helps stimulate new ideas one after the other. The ideas that come from the perspective of local people in each country and region of operation and the ideas of those from other countries differ, and it is important to have these differing ideas clash and mix with each other. By promoting R&D activities that go beyond national borders, we are steadily creating unique proposals. We are fostering a corporate culture that does not cut debate short but rather encourages it to occur over the long term. In addition, we provide our employees with opportunities to spend time overseas for a period that is longer than a business trip but shorter than an overseas posting so that they may obtain global experience. In doing so, we are strengthening our matrix collaboration capabilities with local personnel.

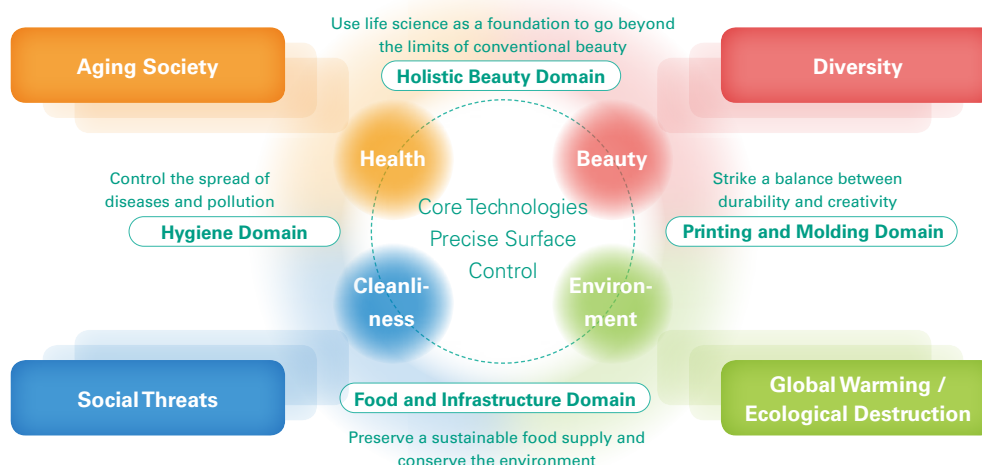
## Strategy for Strengthening Research and Development Fundamental Activities over the Medium to Long Term

### Taking on Challenges at the Intersection of Existing Businesses and in Areas That Go Beyond Existing Business Domains

There are several domains that we believe represent intersections of our existing businesses. These include the hygiene domain, which aims to control the spread of disease and pollution; the holistic beauty domain, which uses life science as a foundation to go beyond the limits of conventional beauty; the food and infrastructure domain, which aims to preserve a sustainable food supply and the environment; and the printing and molding domain, which aspires to strike a balance between durability and creativity. In the hygiene domain, we aim to create an innovative professional services business that engages in both BtoB and BtoS businesses. For the holistic beauty domain, we aim to introduce brands with products that go beyond the limits of conventional cosmetics, a representative example of which is our *SOFINA iP* brand.

Furthermore, we have set significant targets for creating new businesses that cover areas unreachable with our current business domains. What we aim for with these targets is to create technologies and products that are not only world firsts but also world leading. Specifically, we are considering ideas for a new domain of health care that focuses on the aging society and resolves issues concerning cognitive disorders, motor impairment, and skin disorders. We are also considering a new domain of hygiene that addresses viruses, disasters, and other issues.

These new domains represent areas in which Kao can leverage its R&D assets in a manner that is useful to a great number of people. Accordingly, we are actively advancing research with a passion for making an overwhelmingly strong entrance into these domains.



## TOPICS Aiming for Bold Change

### Going Beyond the Corporate Framework to Resolve Social Issues

To date, Kao has had a strong preference for self-sufficiency. Although we have undertaken numerous collaborative initiatives with other companies, these have not necessarily led to the creation of powerful technological synergies. However, to enhance the quality and speed of value creation, it is now necessary to leverage our strengths and engage in joint development with other companies. Even if companies are competing with each other in certain businesses, there is a need for such companies to cooperate in efforts to resolve significant social issues. To this end, Kao has commenced bold collaborative initiatives unlike any it has ever undertaken before. The initiatives we are undertaking in Aomori Prefecture, explained below, are an example of such. In order to pursue collaborative efforts that overcome corporate and national boundaries, a spirit of sharing is essential. We believe that we have the ability to unite people in an effort to resolve social issues in the domains of the environment, health, aging, and hygiene.

#### Establishment of Industry–Academic Collaborative Initiative “Active Life Promotion Research Course” with Hirosaki University, Aomori (December 2016)

The establishment of a strong foundation is essential in expanding businesses within the health care field. When a society realizes the importance of health, not only when people become ill but when they are in good health, there will then be significant opportunities to develop businesses in the fields of health and disease prevention. While sharing a grand vision of improving people’s awareness toward health, we are working with Hirosaki University to support the development of lifestyle habits that allow people to enjoy good health throughout the course of their lives.



## Human Capital Development



**Yasushi Aoki**  
Managing Executive Officer  
Senior Vice President,  
Human Capital Development

### Strengths of Kao's Human Capital Development

#### Passing on the Founding Spirit While Transitioning to an Organization That Can Respond Strongly to Change

The core of an organization lies within people that share goals, feel empathy, and engage in mutual communication. Through *Yoki-Monozukuri*\*, Kao has gathered together a group of employees that share a strong passion for contributing to society. With this group of employees, Kao has established an organization with a mentality that strongly values its responsibilities as a corporate citizen, as indicated within the Kao Way. While passing on Kao's founding spirit, we have held deliberation on the kind of unified vision we should have for our top executives, management, and frontline operations in these times of change. By engaging in our work with resolute determination, encouraging all employees to take on challenges, and providing fair compensation in accordance with business performance and growth, we have established an organization that can respond strongly to change.

### Basic Approach and Promotion Structure for Human Capital Development Activities

**Kao has established the Guidelines for Human Capital Development and is sharing these guidelines on a global scale. The Guidelines for Human Capital Development derive from the following three principles.**

#### ① Pursuit of efficiency

Continuously improve overall efficiency based on creative and innovative activities aimed at the continuous growth of the Kao Group through *Yoki-Monozukuri*

#### ② Respect for human dignity

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

#### ③ Efforts for integration

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

To promote activities within the Kao Group in accordance with our basic approach, we have introduced a framework that is shared and utilized globally. For example, we manage labor costs and make use of human capital information via a global human capital information system. We also improve our organizational capabilities through the employee opinion survey "Find" and bolster our human capital management and development through the establishment of job rank, evaluation, and training systems — as well as compensation policies — that are shared globally.

In addition, we recognize that the health of our employees is not only the foundation for their personal lives but is also a company asset and a source for growth. Based on this understanding, we encourage our employees to develop healthy lifestyle habits on their own initiative and actively provide support for them to do so.

Under our matrix management, we pursue these activities in cooperation with the Human Capital Development Divisions of each Group company, both in Japan and outside Japan. Furthermore, Kao has set up human affairs functions within its major divisions while also establishing on-site career coordinators who oversee the nurturing of each employee and provide assistance in career development.

\* Please refer to the notes on page 3.

## Strategy for Strengthening Human Capital Development over the Medium to Long Term

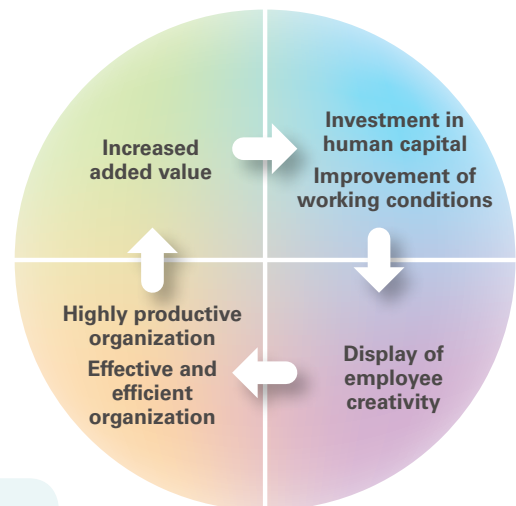
### Matrix Management of Businesses and Functions That Provides New Value to the Ever-Changing Consumer and Flexibly Responds to the Social Environment

One of the strong points of Kao's organizational structure is the matrix management of its businesses and functions. This matrix management rejects a stiff organizational structure and allows for the provision of value to the ever-changing consumer as well as for a flexible response to the social environment. Expanding our global business centers around elements related to each country and region and therefore requires highly sophisticated management. From the perspective of human capital development, we are developing business leaders in coordination with medium-to-long-term business strategies and carrying out flexible human capital investment in businesses anticipating growth. From the business function perspective, we are bolstering the expert knowledge of our human capital and pursuing efficient and effective business support. On a regional level, we are improving the quality of our employment policies and reinforcing our on-site capabilities.

Furthermore, we verify whether or not our global matrix organization is functioning effectively on the whole while appropriately returning the added value this organization creates to our employees. In doing so, we are working to establish a virtuous cycle that creates new kinds of added value.



Employees who will be responsible for the next generation of Kao engaging in passionate debate over the future of Kao's global business



## TOPICS Aiming for Bold Change

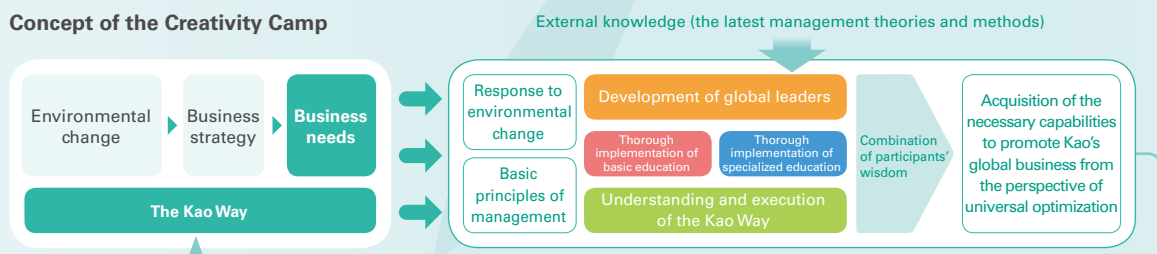
### Developing Global Leaders

To leverage our matrix organization as a strength, a large number of leaders who can display superior leadership at each matrix intersection is essential. To this end, we have established leadership values that Kao's leaders should embody and are developing, evaluating, and promoting leaders who can do so.

In particular, we believe it is necessary to provide opportunities to personnel in key positions, as well as candidates for key positions, for self-study and self-realization. Accordingly, we offer feedback to such personnel through 360-degree evaluations based on our leadership values, thereby providing them with a chance to further develop their leadership capabilities.

Moreover, in our employee training, we place emphasis on opportunities to study environmental changes and basic management principles. As such, we are developing and expanding the "creativity camp," a shared global program that aims to establish a setting for providing stimulation through the latest external knowledge and for combining the wisdom of those who participate.

#### Concept of the Creativity Camp



## Supply Chain Management



**Motohiro Morimura**  
Managing Executive Officer  
Senior Vice President  
Supply Chain Management

### Strengths of Kao's Supply Chain Management

#### Supply Chain Management That Supports *Yoki-Monozukuri*\*1

Kao's unique supply chain management (SCM) is designed for the total optimization of a variety of procurement, production, distribution, and sales activities. Through a complete grasp of information flow from the storefront to the procurement of raw materials, and product flow from development to sales, we ensure secure and efficient delivery of high-quality products to customers. At the same time, we are pursuing global production activities in a broad range of fields, from chemical to consumer products, based on our proprietary technologies. We are also working on innovations, from improvement activities in cutting-edge manufacturing to the development of multifunctional technology and system-building, that can overcome the barriers of business scope and national borders. Through these activities, we put *Yoki-Monozukuri* into practice.

\*1 Please refer to the notes on page 3.

### Basic Approach and Promotion Structure for SCM Activities

#### Realizing Innovation and Fulfilling Social Responsibility

It is necessary for Kao to produce products with the highest performance per unit of cost globally and to provide secure delivery of those products to customers in order to contribute to the enrichment of lives through *Yoki-Monozukuri*. To realize these goals, we are strengthening on-site capacity in support of safe and stable SCM. Moreover, we are continuing to tackle two types of innovation: "technological innovation," the source of periodic developments in quality and production efficiency, and "managerial innovation," designed to promote continuous improvements in efficiency in response to complex business environments.

Furthermore, along with observing the Guidelines for Sustainable Procurement of Raw Materials,\*2 we are bolstering our efforts toward safety, the environment, and disaster prevention, in the field of SCM, as a means of fulfilling our social responsibilities.

Under these basic policies, Kao is working to make improvements within its five basic values of "safety, quality, sustainability, speed, and cost."

\*2 Guidelines for Sustainable Procurement of Raw Materials

In consideration of sustainable development risks, such as human rights issues, decreasing biodiversity, and environmental problems, including resource constraints and global climate change, Kao strives for sustainable procurement of raw materials. Keeping in mind the fact that businesses rely on natural capital, we support procurement of palm oil and paper via means that make zero contributions to deforestation in production areas.

### Strategy for Strengthening SCM over the Medium to Long Term

#### Strengthening a Uniform Global Management System and Utilizing Advanced Technology

The supply chain is highly complicated and sophisticated as it responds to the evolution of a wide range of variables caused by diversifying consumer needs as well as to rapid expansions in overseas markets. Accordingly, there is a need for innovations in the systems and techniques of SCM. Under these circumstances, Kao is undertaking strategic initiatives, centered on the Kao Way, to promote workplace cooperation and standardized mechanisms as well as to utilize advanced technology, such as AI, IoT, and robotics with the goal of enhancing a uniform global management system.

Furthermore, we are designing our portfolio from a long-term perspective and striving to steadily enhance the development of human capital, who provide the foundation for all of Kao's activities, through a variety of education programs.



# Quality Assurance



**Hideko Aoki**  
 Managing Executive Officer  
 Senior Vice President,  
 Product Quality Management

## Strengths of Kao's Quality Assurance

### The Consumer Driven Approach Unchanged since Kao's Founding

Kao uses thorough market and consumer research and a Group-wide database of consumer and customer feedback developed in-house in 1978, which was one of the first of its kind, in the pursuit of high levels of product safety and persistent increases in quality from the perspective of the consumer and customer.

### Strong On-Site and Comprehensive Capabilities Provided by Kao's Integrated Systems

Kao has established unique, comprehensive systems that provide a consistent structure for R&D, marketing, production, distribution, and sales. While refining our strong on-site capabilities, we are demonstrating comprehensive strengths attained through Group-wide activities, from product development to after product launch. In doing so, we are realizing levels of safety and security that consumers and customers can trust.

## Basic Approach and Promotion Structure for Quality Assurance Activities

### Pursuit of Trustworthiness, Honesty, and Transparency

Consumers and customers are the ones who assess product quality. Kao promotes highly honest and transparent business activities, from product development to after product launch, that earn the trust and support of each and every stakeholder. These kinds of activities are made possible by product quality management systems provided by Group-wide business and functional divisions as well as by internal controls conducted by the Quality Assurance Committee.

We have introduced quality control at every stage, from studies of consumer needs to technological development, commercialization, and production, as well as gate control to comprehensively inspect evidence. When the quality and safety of a product cannot be maintained at a sufficiently high level, it is not put on the market.

Moreover, we promote Group-wide activities in pursuit of constant product improvement and the sincere receipt of consumer and customer feedback after product launch. In these ways, we strive to always be highly transparent with the public and to always fulfill our social responsibilities.

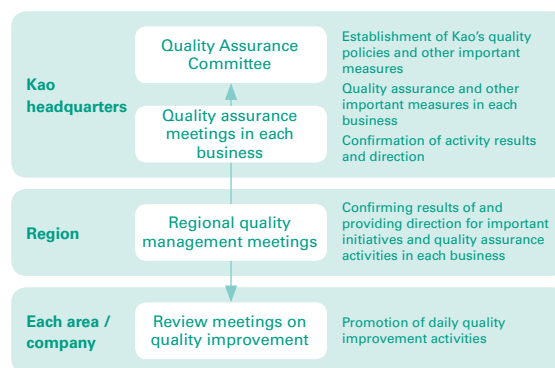
## Strategy for Strengthening Quality Assurance over the Medium to Long Term

### Raising the Global Standard

Globalization of online information, distribution channels, and consumers and customers continue to develop. Through such strengths as our *Consumer Driven* approach and integrated systems, we will boost our on-site and comprehensive capabilities, as well as our collaborative efforts with business partners, to levels that raise global standards and will accelerate the realization of our business strategies.

Furthermore, we will continue to improve the visibility of our quality assurance activities and promote communication with all of our stakeholders regarding quality assurance issues. Through trust and cooperation, Kao will take on the challenge of creating change aimed at resolving social issues.

### Quality Assurance Global Management Systems



## Accounting and Finance

### Strengths of Kao's Accounting and Finance

#### Establishing a Sound and Well-Balanced Financial Foundation Based on EVA<sup>®\*1</sup> Management

Kao uses Economic Value Added (EVA) as its main management indicator. EVA reflects capital cost and is highly correlated with corporate value.

Guided by EVA management, which places importance on both continuous increases in corporate value and long-term profits for stakeholders, Kao aims to establish a sound and well-balanced financial foundation.

While Kao actively promotes business activities that take risks for the sake of realizing profit, it also values shareholder returns. Kao has increased its dividend for 27 consecutive fiscal years and has repurchased Kao shares totaling 493.8 billion yen. At the same time, Kao has maintained a stable financial foundation. Kao has received a high credit rating thanks to its superior ability to generate profits and cash flows, allowing it to capitalize on opportunities for large-scale growth investments with a high level of flexibility.

\*1 EVA<sup>®</sup> is a registered trademark of Stern Stewart & Co.



**Kenichi Yamauchi**  
Executive Officer  
Senior Vice President,  
Accounting and Finance

### Basic Approach and Promotion Structure for Financial Activities

**Kao has established the following five management policies, which illustrate the basic approach of its Accounting and Finance Division. These policies are shared on a global basis.**

#### ① Highly accurate profit management

By drafting budgets with a high level of precision and closely monitoring performance figures, Kao proposes and implements the necessary business activities to reach its targets for profit. Kao responds promptly to the opaque economic environment and fierce market competition and communicates important information with a high level of accuracy.

#### ② Acceleration of closing account and disclosure processes

To promptly address management issues, Kao processes its results for a given period as quickly as possible. In doing so, Kao places importance on engaging in dialogue with its stakeholders and is able to take action toward achieving new targets.

#### ③ Full utilization of IT

Kao makes full use of IT and has in place an efficient structure for providing necessary information in a timely manner. In addition, Kao constantly aims for innovation in such ways as leveraging the latest kinds of IT and introducing new management methods.

#### ④ Sound and prudent asset management

Without conducting asset management for speculative purposes, Kao works to maintain its assets in a secure and sound manner. Focusing on its core business, Kao boosts working capital efficiency and manages funds as investment capital and risk countermeasures through short-term and secure assets.

#### ⑤ Development of experts

Kao develops human capital that is able to pursue innovation on its own initiative and offer creative proposals.

Guided by these policies, Kao promotes uniform global management through cooperation with the accounting organizations of each Group company in Japan, Asia, Europe, and the Americas, and boldly takes on challenges in innovation, including reforming its business processes and pursuing improved efficiency.

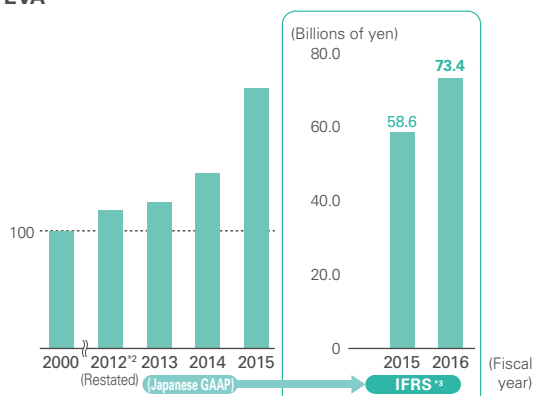
## Strategy for Strengthening Financial Foundation over the Medium to Long Term

### Generating Long-term Profits for All Stakeholders, Not Only Our Shareholders, through the Continuous Increase of EVA

Kao believes that the continuous increase of EVA, which measures true profit by factoring in the cost of invested capital, leads to improved corporate value as well as long-term profits for not only its shareholders but for all of its stakeholders.

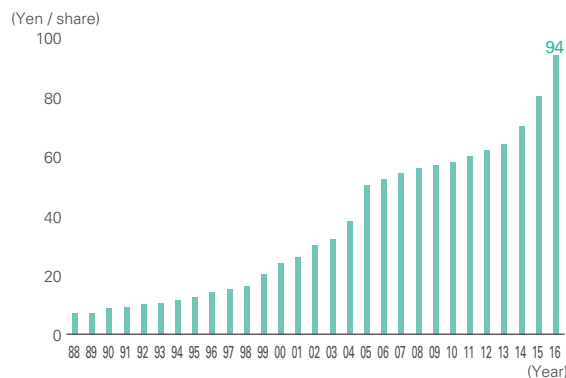
Kao aims for continuous increase of EVA by placing priority on carrying out growth investments and expanding its business to generate profits. Kao also implements shareholder returns such as stable and continuous dividend payments and share repurchases to improve the efficiency of invested capital. Through these efforts, Kao generates long-term profits for its stakeholders in such ways as offering innovative products to its consumers and customers, improving its treatment of its employees, increasing transactions with its business partners, and consistently paying taxes. Furthermore, Kao aims to further enhance returns to its shareholders, who receive residual profits.

#### EVA



EVA under Japanese GAAP is presented as an index with 100 representing the fiscal year ended March 31, 2000.

#### Performance of Dividends per Share



\*2 As Kao changed its fiscal year end for FY2012 from March 31 to December 31, the term of consolidation for FY2012 consists of a 9-month period. The figures for FY2012 (restated) have been adjusted to reflect the performance of Kao Group companies, which had previously ended their fiscal year on March 31, over the 12-month period from January 1, 2012 to December 31, 2012.

\*3 The Kao Group adopted IFRS for the fiscal year ended December 31, 2016.

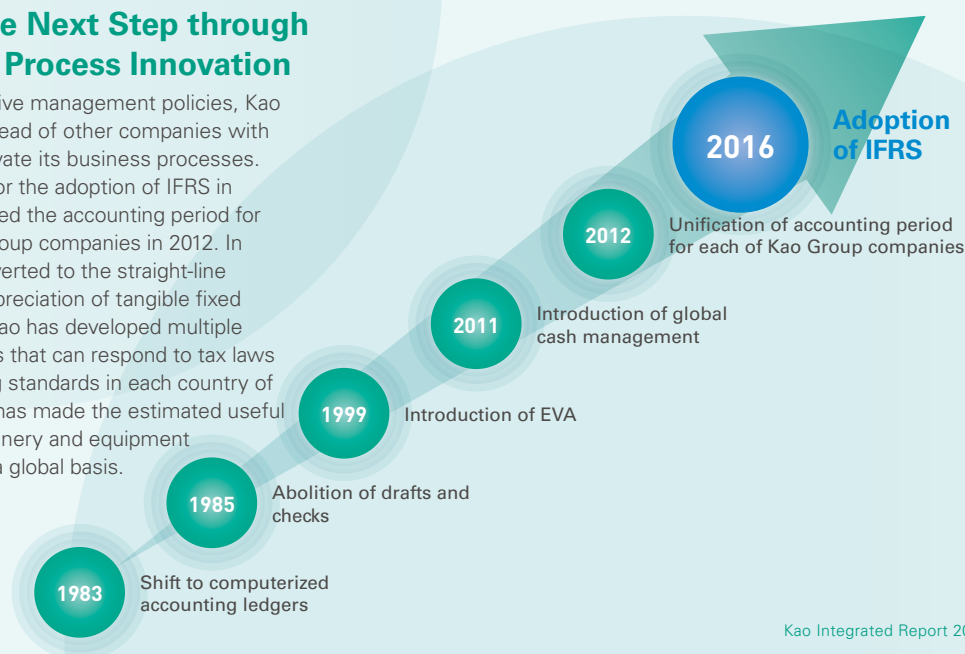
#### TOPICS

### Aiming for Globalization

#### Taking the Next Step through Business Process Innovation

Guided by its five management policies, Kao has pushed ahead of other companies with efforts to innovate its business processes.

To prepare for the adoption of IFRS in 2016, Kao unified the accounting period for each of Kao Group companies in 2012. In 2013, Kao converted to the straight-line method for depreciation of tangible fixed assets. Also, Kao has developed multiple ledger systems that can respond to tax laws and accounting standards in each country of operation and has made the estimated useful life of its machinery and equipment consistent on a global basis.



# Structure for Supporting Value Creation

## A Message from the Chairman of the Board of Directors



**Sonosuke Kadonaga**  
Independent Outside Director  
Chairman of the Board of Directors

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### Role as Chairman of the Board of Directors

Three years have passed since I, as an Independent Outside Director, assumed the position of chairman of the Board of Directors. During this time, I have gotten the impression that the lively deliberations at meetings of the Board of Directors are being put to use in Kao's business execution and that changes are being advanced steadily. For example, Kao has changed the content of its proposals at meetings of the Board of Directors and strategic investments have been accelerated after receiving the advice of Outside Directors and Outside Audit & Supervisory Board Members. As chairman, I pay close attention to ensure that deliberations are carried out constructively and with a high level of productivity. To this end, I prepare the agenda of meetings in advance and provide direct advice to presenters at meetings of the Board of Directors regarding methods for making reports and proposals. In addition, I attend important meetings, such as the Management Committee, on a regular basis and engage in direct dialogues with management at overseas subsidiaries. Through these efforts, I feel that Kao is being able to incorporate new perspectives into its management as internal personnel can receive questions directly from me, an outside member. While these efforts take a considerable amount of time, I believe that doing so helps to further contribute to sound corporate governance. Meanwhile, I make sure to maintain a certain distance from internal personnel so as not to exert too great an influence over them. I will keep making concerted efforts toward ensuring robust corporate governance as both an Independent Outside Director and chairman of the Board in order for Kao to realize sound, highly transparent management.

## Merits and Issues Concerning Corporate Governance

*Innovation*, which is emphasized as a basic value within Kao's corporate philosophy, the Kao Way, is also being applied in terms of Kao's corporate governance. Kao has a corporate culture that continuously pursues improvements without being satisfied with the status quo. In March 2014, Kao made significant changes to its corporate governance systems. Kao decreased the size of the Board of Directors to enable deeper, more flexible deliberation, reducing the number of Directors to six, comprising three Inside Directors and three Outside Directors. Also at this time, as an Independent Outside Director I was appointed as the chairman of the Board. Then in March 2016, Kao added an Inside Director to the Board of Directors. This move was proposed by the Outside Directors, as we observed the difficulty of conducting the deliberations and activities of the Board of Directors among only three Inside Directors. At meetings of the Board of Directors, three Outside Directors, who have abundant global experience, offer opinions from a wide range of perspectives, thereby facilitating active discussion. In addition to this, the Outside Audit & Supervisory Board Members, who have many years of experience working with companies as a lawyer and certified public accountants, contribute to the Board's discussion by drawing on their professional expertise. Moreover, we create opportunities for other meetings, including meetings between only the Outside Directors and Outside Audit & Supervisory Board Members and ad hoc meetings, to go over topics that were not sufficiently discussed at meetings of the Board of Directors. This kind of regular communication, as well as the mutual understanding between Directors, provides the basis for active discussion at meetings of the Board of Directors.

I believe that the current structure matches Kao's needs for corporate governance. However, this does not mean that we have finished reforms of corporate governance. To appropriately respond to the rapidly changing business environment, it is necessary to pursue innovation, including in terms of Kao's corporate governance structure. I believe the Board of Directors needs to take time to discuss the direction of Kao's business strategies and organization based on long-term trends, in addition to the topic of developing human capital that can support Kao's growth. I had the opportunity of discussing Kao's corporate governance at a meeting of the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code held by the Financial Services Agency in December 2015. As a number of investors were also in attendance, I believe this conference allowed me to contribute to deepening communication between investors and Outside Directors.

## Initiatives Related to the Environment and Society

Kao considers it important to contribute to solving social issues concerning the environment, health, aging, and hygiene. I believe such policies reflect Kao's intention to solve these kinds of social issues through innovative products and services and contribute to the livelihood of people, both now and in the future, while also realizing growth for the Company. For example, in August 2009 Kao launched *Attack Neo*, the first ever concentrated liquid laundry detergent that incorporated environmental perspectives. This product gave rise to the innovative idea of doing laundry in an environmentally friendly manner through single-rinse options. This idea helped in reducing CO<sub>2</sub> emissions by 22%\* and contributed to the preservation of the environment. At the same time, *Attack Neo* performed tremendously, accounting for approximately 29% of Kao's laundry detergent sales in FY2015, thus contributing to Kao's growth. By launching these types of products that bring about social change and contribute to the sustainability of society, Kao enhances its corporate value. I overwhelmingly agree with this approach. Outside Directors will help play a part in ensuring that Kao's management is conducted in accordance with Kao's policy of contributing to solving social issues.

\* As a basic condition for calculating CO<sub>2</sub> emission amounts, a fully automatic washing machine is used (eight-kg capacity), with a load of laundry set at an amount totaling four kg and water amounts set at 47 L. During a two-rinse cycle, 130 L of water and 67 Wh of electricity are used. During a single-rinse cycle, 102 L of water and 52 Wh of electricity are used. Values for Kao's conventional liquid detergents are displayed using 100 as an index figure.

## Effectiveness of Kao's Corporate Governance from the Perspectives of an Independent Outside Director and an Independent Outside Audit & Supervisory Board Member



**Masayuki Oku**  
Independent Outside Director

### Necessary Steps for Realizing Lasting Corporate Development

Three years have passed since I became a member of the Board at Kao. At meetings of the Board of Directors, the Outside Directors and Outside Audit & Supervisory Board Members offer opinions based on their individual experiences and expertise from various perspectives, thereby facilitating vibrant discussion. Kao's Inside Directors have a very high level of respect for the opinions of Outside Directors, and I feel that they respond promptly to the opinions and advice we offer. I believe that a flexible response, in addition to products and prices, is a significant component of differentiation and competitiveness. As such, I would like Kao to maintain and further improve upon this strong point.

The main role of the Outside Directors is to appropriately reflect the opinions of the shareholders at meetings of the Board of Directors from a perspective that is independent from that of Kao's management. We therefore must act as a spokesperson for shareholder interests. However, the interests of shareholders are not uniform. For lasting corporate development, it is important to engage in dialogue with various stakeholders and allocate profits in a well-balanced manner.

Furthermore, the fundamental role of the Outside Directors is to support a stance that allows those on the business execution side to actively make proposals for

sound corporate growth as well as to promote the realization of such proposals after giving them intense scrutiny. It goes without saying that, naturally, we, as Outside Directors, must also put a halt to any proposal from management, without hesitation, if we believe it is inconsistent with the spirit of the Kao Way. To fulfill these roles, we must sufficiently understand the Kao Way and other approaches of the Company and cooperate with Kao's management. Accordingly, I believe that the Outside Directors play a difficult role, as we must also maintain a certain level of tension with Kao's management while working to comply with the essential values of the Company.



**Yumiko Waseda**  
Independent Outside Audit & Supervisory Board Member

### Kao's Strengths and Challenges from the Perspective of an Outside Audit & Supervisory Board Member

While Audit & Supervisory Board Members do not have voting rights at meetings of the Board of Directors, as participants in these meetings, we provide opinions based on our duties as Audit & Supervisory Board Members. Going beyond that, we also offer opinions from our perspective as law and accounting specialists, and I feel that the Board of Directors places great value on such opinions. In addition, due to the equal number of inside and outside members, including Audit & Supervisory Board Members, who participate in meetings of the Board of Directors (members of the Board: four inside, three outside; Audit & Supervisory Board Members: two inside, three outside), as well as the fact that the chairman of the Board of Directors is an Outside Director, outside members are able to actively make proposals at meetings of the Board of Directors, and the Company takes the opinions of the outside members very seriously. Also, meetings are often held between only outside members, where we candidly exchange opinions, and recommendations are made to the Company based on the results of these meetings.

One of Kao's current strengths is that its corporate philosophy, the Kao Way, has been instilled in each employee, allowing Kao to realize rational and swift decision making

and giving it an exceptional ability to gather Group-wide strengths. However, I believe Kao faces a challenge in incorporating diversity into this strength, as it must employ a well-balanced approach so as not to inhibit its ability to promptly gather Group-wide strengths. One aspect of diversity is promoting an active role for female employees. While I am currently the only woman active on the Board of Directors, two of Kao's executive officers are female, and Kao is nurturing female employees who could likely become their successors. Accordingly, I believe that Kao is making solid efforts to promote the active role of female employees. I have high hopes that Kao will become a company where an even more diverse group of human capital, including women, can play an active role.

## Corporate Governance Structure

### Basic Approach

Kao makes concerted efforts to reinforce its corporate governance as a means of continuously increasing corporate value. Kao's basic stance on measures related to corporate governance is to implement the necessary policies and fulfill its accountability by setting up and operating a management structure and internal control system that allows it to swiftly respond to changes and realize efficient management that is sound, fair, and highly transparent. Kao views accomplishing such tasks as one of its most important management issues. Based on requests from stakeholders and social trends, Kao conducts reviews and implements the necessary measures and improvements, as needed, in an appropriate manner.

#### History of Initiatives for Enhancing Corporate Governance

2002	<ul style="list-style-type: none"> <li>Introduced the Executive Officer system</li> <li>Introduced the Outside Director system</li> </ul>
2003	<ul style="list-style-type: none"> <li>Established the Committee for the Examination of the Nominees for the Chairman of the Board and the President and Chief Executive Officer and the Compensation Advisory Committee</li> </ul>
2010	<ul style="list-style-type: none"> <li>Established Standards for Independence of Outside Directors/Outside Audit &amp; Supervisory Board Members</li> </ul>
2012	<ul style="list-style-type: none"> <li>Added one Outside Director, for a total of three</li> <li>Reduced the number of Directors from 15 to 10</li> <li>Shortened Directors' term of office to one year</li> </ul>
2013	<ul style="list-style-type: none"> <li>Added one Outside Audit &amp; Supervisory Board Member, for a total of three</li> </ul>
2014	<ul style="list-style-type: none"> <li>Made the number of Inside Directors and Outside Directors the same</li> <li>Appointed an Independent Outside Director as chairman of the Board of Directors</li> </ul>
2015	<ul style="list-style-type: none"> <li>Commenced evaluation of the effectiveness of the Board of Directors</li> </ul>
2016	<ul style="list-style-type: none"> <li>Commenced evaluation of the effectiveness of the Audit &amp; Supervisory Board</li> <li>Added one Inside Director, for a total of four</li> </ul>

### Corporate Governance Structure

Kao has chosen to be a company with an Audit & Supervisory Board. The Audit & Supervisory Board Members do not possess voting rights at meetings of the Board of Directors. Kao believes that this allows these members to objectively audit the decisions made by the Board of Directors and the business execution of individual Directors without being bound by past decisions and adopting an overly conservative approach.

To better ensure transparency and fairness in the processes for determining Director appointment and compensation, Kao has voluntarily established the Committee for the Examination of the Nominees for the Members of the Board of Directors, composed solely of Outside Directors and Outside Audit & Supervisory Board Members, and the Compensation Advisory Committee, made up of Outside Directors, Outside Audit & Supervisory Board Members, and Representative Directors.

Kao's Board of Directors maintains a high level of objectivity, with three of its seven members being Independent Outside Directors. At the same time, the Board of Directors is supported by the above organizations, which oversee auditing duties as well as compensation and nomination examinations, thereby realizing a high level of effectiveness. In these ways, Kao has in place a framework for supervising and auditing its management.

#### Corporate Governance Reference Chart

Corporate organization	Company with an Audit & Supervisory Board
Number of Directors (number of whom are Independent Outside Directors)	Seven (three)
Number of Audit & Supervisory Board Members (number of whom are Independent Outside Audit & Supervisory Board Members)	Five (three)
Directors' term of office	One year
Adoption of Executive Officer system	Yes
Institution for delegation of Board of Directors' authority	Management Committee, etc.
Institution for voluntary consultation with the Board of Directors	Committee for the Examination of the Nominees for the Members of the Board of Directors, Compensation Advisory Committee
Accounting Auditor	Deloitte Touche Tohmatsu LLC

### Corporate Governance Structure

## Board of Directors

In order to appropriately carry out the formulation of business strategies and other measures as well as supervise specific business execution, Kao has secured a Board of Directors comprising diverse individuals with well-balanced knowledge, experience, and ability. Outside Directors are nominated with emphasis on diverse experience, their knowledge, and a high level of insight obtained from such experience that cannot be obtained from Inside Directors alone. Examples include global experience, experience in managing a company that provides products and services in a different field from Kao, and consulting or academic experience.

To promote sustainable growth and medium-to-long-term increases in corporate value, Kao deliberates from various perspectives, including evaluation of risks, and determines the medium-to-long-term direction of management toward business strategies. Furthermore, Kao supervises whether or not its business strategies are being executed appropriately in various ways through reports by the Inside Directors on the status of progress of these strategies and issues preventing their achievement and response to such issues, as well as through evaluation by Outside Directors and Outside Audit & Supervisory Board Members from their diverse perspectives. Moreover, Kao draws sharp distinctions between risks through the establishment of internal control and risk control systems. In these ways, Kao has created an environment that allows for a more proactive style of management.

Also, Kao has introduced an Executive Officer system that places Executive Officers in charge of each division, thereby promoting the separation of supervisory functions and execution functions. Additionally, the Board of Directors largely delegates execution authority to the Management Committee, which is mainly composed of members with the position of Managing Executive Officer or higher. Through these means, Kao is working to accelerate decision making and business execution.

### Evaluation of the Effectiveness of the Board of Directors

On at least an annual basis, the effectiveness of the Board of Directors is evaluated by all of the members of the Board and Audit & Supervisory Board Members at a meeting of the Board of Directors, in order to make improvements aimed at enhancing the effectiveness of the Board of Directors. Based on the idea that the roles and responsibilities of the Board of Directors must be shared by the entire Board, Kao believes that it is effective for all members who participate in meetings of the Board of Directors, including Audit & Supervisory Board Members, to express their own opinions and evaluate those opinions by engaging in free and open discussions. Evaluation of the effectiveness of the Board of Directors is therefore conducted through self-assessment.

At a meeting of the Board of Directors held in June 2016, the remarks, which included the following viewpoints, were presented by each of the seven members of the Board and each of the five Audit & Supervisory Board Members.

- (1) Efforts to address issues pointed out in FY2015's evaluation of the effectiveness of the Board of Directors
- (2) Expectations of the Board of Directors in the Corporate Governance Code
  - (i) Discussion of the broad direction of corporate strategy
  - (ii) Establishing an environment where appropriate risk-taking by senior management is supported
  - (iii) Carrying out effective oversight of Directors and management from an independent and objective standpoint
  - (iv) Constructive communication with shareholders and investors
- (3) General operation of meetings of the Board of Directors (proceedings, agendas, reports, materials, discussions, etc.)
- (4) Future issues for the Board of Directors



## Audit & Supervisory Board

For Outside Audit & Supervisory Board Members, Kao has appointed certified public accountants and a lawyer to its Audit & Supervisory Board, all of whom have a high level of expertise and abundant experience and knowledge regarding auditing. Supported by internal information gathering by the full-time Inside Audit & Supervisory Board Members, Audit & Supervisory Board Members are able to engage in objective and meaningful discussion and perform highly effective audits.

Audit & Supervisory Board Members hold regular meetings with the Representative Directors to exchange opinions and attend important meetings, such as meetings of the Board of Directors and the Management Committee. In addition to meetings with the Audit & Supervisory Board Members of domestic Group companies, the Audit & Supervisory Board Members hold meetings with internal auditing divisions and the Accounting Auditor to exchange information as well as conduct interviews with each internal division and Kao's subsidiaries on a regular basis and additionally when necessary. Furthermore, at meetings of the Board of Directors, the Audit & Supervisory Board Members provide observations related to the legality and validity of Kao's business and accounting practices. They also offer a wide range of advice to Kao's management, including advice on strategic management direction.

### Evaluation of the Effectiveness of the Audit & Supervisory Board

At the Audit & Supervisory Board meeting held in February 2017, all Audit & Supervisory Board Members expressed their opinions on the activities of the Audit & Supervisory Board Members in FY2016. The attendees engaged in discussions based on those opinions and made their evaluations accordingly. In addition, reports were made to the Board of Directors on the following matters.

#### 1. Efforts to address issues pointed out in last year's evaluation of auditing effectiveness

With respect to cooperation between Audit & Supervisory Board Members and the Accounting Auditor, Audit & Supervisory Board Members, and the internal auditing division, the following steps were taken. Regarding the Accounting Auditor, while the overseeing independence and the appropriateness of audits, a report on the audit plan (annual) and reports on accounting audit results (with respect to each quarterly review and the year-end closing of accounts) were received and information and opinions exchanged, and the selection of the Accounting Auditor was also discussed. With respect to the internal auditing division, the Audit & Supervisory Board Members have been working closely with the Division of Internal Audit and other internal auditing divisions, such as by exchanging information and opinions on a regular basis and whenever necessary, and have therefore been working to improve the effectiveness and efficiency of audits.

#### 2. Audit activities in FY2016

Audit activities of the Audit & Supervisory Board are functioning effectively, with audits conducted in accordance with the auditing standards prescribed by the Audit & Supervisory Board, and in accordance with Kao's audit policy, the allocation of duties, and other matters. In addition, proposals made at regularly held meetings to exchange opinions with Representative Directors were immediately implemented, confirming the effectiveness of the audits.

#### 3. Future issues for audits by the Audit & Supervisory Board

Information is being shared closely between Audit & Supervisory Board Members of Kao and those of major subsidiaries in ways such as accompanied visits to subsidiaries. However, it is necessary to increase the effectiveness of the Kao Group's audits by promoting further cooperation with Audit & Supervisory Board Members of other subsidiaries. In addition, the effectiveness of audits should be improved by making effective use of staff who assist Audit & Supervisory Board Members in their duties.

Corporate Governance Structure

## Committee for the Examination of the Nominees for the Members of the Board of Directors and Compensation Advisory Committee

To ensure fairness and transparency in decisions regarding the appointment and compensation of Kao's members of the Board and Executive Officers, Kao has voluntarily established the Committee for the Examination of the Nominees for the Members of the Board of Directors and the Compensation Advisory Committee.

The Committee for the Examination of the Nominees for the Members of the Board of Directors comprises three Independent Outside Directors and three Independent Outside Audit & Supervisory Board Members. The Committee submits its opinions regarding Director nominees proposed by the Board of Directors. In addition to examining the appropriateness of Director nominees, it discusses size, composition, and diversity of the Board of Directors as well as the qualities required for the President and Chief Executive Officer and members of the Board. The Committee also reports the results of these examinations and deliberations to the Board of Directors.

The Compensation Advisory Committee is composed of three Representative Directors, three Independent Outside Directors, and three Independent Outside Audit & Supervisory Board Members. The Committee offers its opinions on compensation proposals from Kao as well as on compensation systems and levels of members of the Board and Executive Officers.

## Attending Members for Meetings of the Board of Directors, the Audit & Supervisory Board, and Other Committees

Classification	Name	Meeting of the Board of Directors	Audit & Supervisory Board Meeting	Committee for the Examination of the Nominees for the Members of the Board of Directors	Compensation Advisory Committee
Members of the Board	Michitaka Sawada	○			○
	Katsuhiko Yoshida	○			○
	Toshiaki Takeuchi	○			○
	Yoshihiro Hasebe	○			
	Sonosuke Kadonaga <small>Outside / Independent</small>	◎		◎	◎
	Masayuki Oku <small>Outside / Independent</small>	○		○	○
	Yukio Nagira <small>Outside / Independent</small>	○		○	○
Audit & Supervisory Board Members	Toshiharu Numata	○	◎		
	Katsuya Fujii	○	○		
	Yumiko Waseda <small>Outside / Independent</small>	○	○	○	○
	Toraki Inoue <small>Outside / Independent</small>	○	○	○	○
	Hideki Amano <small>Outside / Independent</small>	○	○	○	○

◎ indicates chairman of the Board or specified committee ○ indicates attending member

## Independent Outside Directors and Independent Outside Audit & Supervisory Board Members

Kao uses a structure with the appropriate number of Independent Outside Directors and Independent Outside Audit & Supervisory Board Members who satisfy the "Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation" (hereinafter, the "Standards for Independence") to provide a check on the status of deliberations of the Board of Directors from an objective perspective independent of Kao's management so that its judgment is not biased toward the logic of persons inside the Company. Three of Kao's seven Directors are Outside Directors and three of its five Audit & Supervisory Board Members are outside members. All of these members fulfill the Standards for Independence. Under its current structure, Kao has appointed an Independent Outside Director as Chairman of the Board of Directors as part of a policy to further enhance the Board's neutrality and independence. To promote discussions from diverse perspectives, Independent Outside Directors and Outside Audit & Supervisory Board Members hold meetings exclusively for independent outside members on their own initiative at intermissions of meetings of the Board of Directors or by setting up

separate opportunities to exchange information and share awareness of issues related to Kao's management and the activities of the Board of Directors, the development of future senior management, and other matters.

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## Dialogue with Shareholders

In order to improve its corporate value, Kao considers it important to communicate with shareholders and other stakeholders, thereby gaining better understanding of mutual views and positions, and taking appropriate measures based on this understanding. Kao will develop a structure to promote constructive communication with shareholders, and create opportunities to communicate with individual shareholders and domestic and foreign institutional investors. In communication with shareholders, the members of management participate to the extent possible in order to reflect the opinions of the shareholders and other matters in management appropriately.

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## Compensation System for Directors, Audit & Supervisory Board Members, and Executive Officers

Kao's compensation system for members of the Board, Audit & Supervisory Board Members, and Executive Officers is aimed at (1) securing and retaining diverse and excellent personnel to establish and improve competitive advantages; (2) promoting prioritized measures for lasting increases in corporate value; and (3) sharing interests in common with shareholders.

Remuneration of members of the Board, other than Outside Directors, and Executive Officers consists of (i) a base salary, (ii) a bonus as short-term incentive compensation, and (iii) a performance-based share incentive plan as long-term incentive compensation, and is designed to provide an impetus for continuing annual improvement in business results and medium-to-long-term growth. Linkage of remuneration to business results increases with rank and takes into account the responsibilities of each position and individual performance. An overview of the components of remuneration is as follows.

### (i) Base salary

A base salary is paid as fixed monthly remuneration in an amount determined in accordance with duties as a member of the Board or Executive Officer and rank.

### (ii) Bonus as short-term incentive compensation

When the full bonus payment rate is paid, the bonus is set at 50% of the base salary for the President and Chief Executive Officer, 40% of the base salary for the Chairman of the Board of Directors and Executive Officers with titles other than the Chief Executive Officer, and 30% of the base salary for other Executive Officers. The bonus payment rate is set within a range of 0% to 200%, depending on the degree of achievement of targets for net sales and income (gross profit less selling, general and administrative expenses), the degree of their improvement from the previous year, and the degree of achievement of the target for Economic Value Added (EVA<sup>®\*</sup>), Kao's main management indicator, which takes into account capital cost.

\* EVA<sup>®</sup> is a registered trademark of Stern Stewart & Co.

### (iii) Performance-based share incentive plan as long-term incentive compensation

Within a four-year target period from FY2017 to FY2020 (hereinafter, the target period), the period covered by the current mid-term plan, Kao shares, etc., are delivered to the members of the Board excluding Outside Directors and Executive Officers in accordance with the degree of achievement of targets adopted under the mid-term plan, etc. This performance-based share incentive plan comprises two parts: a performance-based part in which

Corporate Governance Structure

Kao shares, etc., are delivered in accordance with the degree of achievement of targets adopted under the mid-term plan, etc., and a fixed part in which a certain number of Kao shares, etc., are delivered annually. The purpose of the performance-based part of the system is to provide an impetus for achieving the targets of Kao's mid-term plan as well as to increase the link between performance and compensation over the medium to long term. The purpose of the fixed part of the system is to strengthen shared interest with Kao's shareholders by promoting the holding of shares by the members of the Board excluding Outside Directors and Executive Officers. The performance-based part accounts for 70% of shares delivered, with the fixed part accounting for 30%. When the performance-based coefficient for the performance-based part of the system is at 100%, the yearly share remuneration amount is set at approximately 30% to 40% of the base salary.

1 Performance-based part

Based on a point system where points are determined beforehand by rank (hereinafter, rank points), single-year points are granted to the members of the Board excluding Outside Directors and Executive Officers every fiscal year and are calculated using the formula below. Performance-based points are calculated by multiplying the single-year points accumulated within the target period by the performance-based coefficient, which reflects the degree of achievement of the mid-term plan's targets, etc. Based on these points, shares, etc., will be delivered to the members of the Board excluding Outside Directors and Executive Officers upon the conclusion of the mid-term plan. The performance-based coefficient fluctuates within a range of 0% to 200% in accordance with the degree of achievement of targets, etc., for the CAGR\*1 of like-for-like\*2 sales as well as consolidated operating margin, etc.

\*1 CAGR: Compound annual growth rate

\*2 Like-for-like growth excludes the effect of currency translation.

Formula for calculating single-year points:

Rank points × 70%

Formula for calculating performance-based points:

Cumulative single-year points over the target period × performance-based coefficient

2 Fixed part

Fixed points are granted to the members of the Board excluding Outside Directors and Executive Officers every fiscal year. These points are based on rank points and calculated using the formula below. Shares, etc., are delivered to the members of the Board excluding Outside Directors and Executive Officers in the year following the corresponding fiscal year in accordance with the number of fixed points. Furthermore, shares acquired in the fixed part of the performance-based share incentive plan are held continuously until the conclusion of the target period.

Formula for calculating fixed points:

Rank points × 30%

Compensation for Outside Directors, who hold a position independent from Kao's business execution function, is limited to a fixed monthly salary.

The compensation system and compensation standards for members of the Board and Executive Officers are examined by the Compensation Advisory Committee and determined by the Board of Directors. The Compensation Advisory Committee comprises the chairman of the Board of Directors as well as all of Kao's Representative Directors. In addition, the Committee includes all of Kao's Outside Directors and Outside Audit & Supervisory Board Members, from the perspective of ensuring objectivity and transparency in the decision-making process. As such, over half of the Committee's members are independent.

Compensation for Audit & Supervisory Board Members consists of fixed monthly remuneration. Compensation standards are determined at meetings of the Audit & Supervisory Board.

Compensation standards for the members of the Board, Executive Officers, and Audit & Supervisory Board Members are determined each year after ascertaining standards at other major manufacturers of a similar size, industry category, and business type to Kao using officer compensation survey data from an external survey organization.

Kao has no retirement bonus system for members of the Board or Audit & Supervisory Board Members.

## Compensation Paid to Members of the Board and Audit & Supervisory Board Members in FY2016

Members of the Board	Seven, 414 million yen (Outside Directors: three, 52 million yen)
Audit & Supervisory Board Members	Six, 76 million yen (Outside Members: four, 28 million yen)

### Notes:

- The above numbers of Directors/Audit & Supervisory Board Members include one Outside Audit & Supervisory Board Member who resigned at the conclusion of the 110th Annual General Meeting of Shareholders held on March 25, 2016.
- The aggregate amount of remuneration, etc., paid to members of the Board includes the following amounts:
  - The amount paid as the bonuses for FY2016 to members of the Board  
112 million yen to four members of the Board
  - The amount of remuneration, etc., as stock acquisition rights allotted as stock options based on the resolution of the meeting of the Board of Directors held on April 27, 2016  
68 million yen to four members of the Board
- Maximum aggregate amounts of remuneration, etc., are as follows:
  - Maximum aggregate amounts of remuneration, etc., to be paid to members of the Board
    - An annual amount of 630 million yen (resolved at the 101st Annual General Meeting of Shareholders held on June 28, 2007)  
This amount includes an annual amount of 100 million yen for Outside Directors (resolved at the 110th Annual General Meeting of Shareholders held on March 25, 2016), and does not include remuneration paid to members of the Board who also serve as employees of Kao, for their services as employees.
    - An annual amount of 200 million yen (resolved at the 100th Annual General Meeting of Shareholders held on June 29, 2006)  
This amount was approved as the maximum amount of stock acquisition rights to be allotted as stock options, apart from the amount in (i) above.
  - The maximum aggregate amount of remuneration, etc., to be paid to Audit & Supervisory Board Members  
An annual amount of 85 million yen (resolved at the 78th Annual General Meeting of Shareholders held on June 29, 1984)

### The aggregate amount of remuneration of members of the Board

Michitaka Sawada (Member of the Board)	The aggregate amount of remuneration: 156 million yen (base salary of 82 million yen, bonus of 52 million yen, stock option compensation of 23 million yen)
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Note: Only director remuneration amounts totaling over 100 million yen are listed.

## Directors, Audit & Supervisory Board Members, and Executive Officers

(as of March 21, 2017)



**Toraki Inoue**

Independent Outside Audit &  
Supervisory Board Member

**Toshiharu Numata**

Full-time Audit &  
Supervisory Board Member

**Toshiaki Takeuchi**

Representative Director  
Senior Managing Executive Officer

**Yumiko Waseda**

Independent Outside Audit &  
Supervisory Board Member

**Sonosuke Kadonaga**

Independent Outside Director  
Chairman of the Board of Directors

**Michitaka Sawada**

Representative Director  
President and Chief Executive Officer



**Yoshihiro Hasebe**

Director  
Managing Executive Officer

**Katsuya Fujii**

Full-time Audit &  
Supervisory Board Member

**Hideki Amano**

Independent Outside Audit &  
Supervisory Board Member

**Katsuhiko Yoshida**

Representative Director  
Senior Managing Executive Officer

**Masayuki Oku**

Independent Outside Director

**Yukio Nagira**

Independent Outside Director

Directors, Audit & Supervisory Board Members, and Executive Officers (as of March 21, 2017)

Board of Directors



**Michitaka Sawada**  
Representative Director  
President and Chief Executive Officer

Apr. 1981 Joined the Company  
Mar. 1999 Manager, Materials Development Research Laboratories  
Jul. 2003 Vice President, Sanitary Products Research Laboratories  
Jun. 2006 Executive Officer, Vice President, Global Research & Development  
Apr. 2007 Vice President, Global Research & Development, Human Health Care  
Jun. 2008 Member of the Board, Executive Officer  
Jun. 2012 Representative Director, President and Chief Executive Officer (current)



**Sonosuke Kadonaga**  
Independent Outside Director  
Chairman of the Board of Directors

President, Intrinsic  
Director, Business Breakthrough Inc.  
Vice President, Business Breakthrough University  
Apr. 1976 Joined Chiyoda Corporation  
Jun. 1981 Master of Science in Chemical Engineering, Massachusetts Institute of Technology, School of Engineering, U.S.A.  
Aug. 1986 Joined McKinsey & Company, Inc., Japan  
Jul. 2009 President, Intrinsic (current)  
Jun. 2012 Member of the Board, Kao Corporation (current)  
Mar. 2014 Chairman of the Board of Directors (current)



**Katsuhiko Yoshida**  
Representative Director  
Senior Managing Executive Officer

Apr. 1979 Joined the Company  
Apr. 2007 President, Human Health Care Business Unit  
Jun. 2007 Executive Officer  
Apr. 2010 President, Fabric and Home Care Business Unit  
Jun. 2012 Managing Executive Officer  
Mar. 2014 Member of the Board, Representative Director, President, Consumer Products; responsible for Kao Professional Services Co., Ltd. (current)  
Mar. 2015 Representative Director, Senior Managing Executive Officer (current)  
Jan. 2017 Senior Vice President, Marketing Research Development; responsible for Kao Professional Services Co., Ltd. (current)



**Masayuki Oku**  
Independent Outside Director

Chairman of the Board, Sumitomo Mitsui Financial Group, Inc.  
Apr. 1968 Joined Sumitomo Bank  
May 1975 LL.M., University of Michigan Law School, U.S.A.  
Jan. 1991 Branch Manager, Chicago Branch, Sumitomo Bank  
Jun. 1994 Director, Sumitomo Bank  
Nov. 1998 Managing Director, Sumitomo Bank  
Jun. 1999 Managing Director and Managing Executive Officer, Sumitomo Bank  
Jan. 2001 Senior Managing Director and Senior Managing Executive Officer, Sumitomo Bank  
Apr. 2001 Senior Managing Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation  
Dec. 2002 Senior Managing Director, Sumitomo Mitsui Financial Group, Inc.  
Jun. 2003 Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation  
Jun. 2005 Chairman of the Board, Sumitomo Mitsui Financial Group, Inc. (current), and President and Chief Executive Officer, Sumitomo Mitsui Banking Corporation  
Mar. 2014 Member of the Board, Kao Corporation (current)



**Toshiaki Takeuchi**  
Representative Director  
Senior Managing Executive Officer

Apr. 1981 Joined the Company  
Mar. 2009 Vice President, Corporate Planning, Kao Customer Marketing Co., Ltd.  
Mar. 2010 Member of the Board, Executive Officer, Kao Customer Marketing Co., Ltd.  
May 2011 Member of the Board, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd.  
May 2012 Representative Director, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd.  
Jun. 2012 Executive Officer  
Apr. 2013 Representative Director, Executive Vice President, Kao Customer Marketing Co., Ltd.  
Mar. 2014 Member of the Board, Representative Director, Managing Executive Officer, President, Kao Customer Marketing Co., Ltd. (current)  
Jan. 2016 Representative Director, Senior Managing Executive Officer; Representative Director, President, Kao Group Customer Marketing Co., Ltd. (current)



**Yukio Nagira**  
Independent Outside Director

Representative Director, Chairman, Nitto Denko Corporation  
Apr. 1971 Joined Nitto Denko Corporation  
Jun. 1998 Director, Nitto Denko Corporation  
Jun. 2001 Executive Managing Director, Nitto Denko Corporation  
Jun. 2003 Director, Executive Vice President, Nitto Denko Corporation  
Jun. 2007 Director, Senior Executive Vice President, Nitto Denko Corporation  
Apr. 2008 President and Representative Director, Nitto Denko Corporation  
Apr. 2014 Chairman of the Board, Representative Director, Nitto Denko Corporation (current)  
Mar. 2017 Member of the Board, Kao Corporation (current)



**Yoshihiro Hasebe**  
Director  
Managing Executive Officer

Apr. 1990 Joined the Company  
Mar. 2008 Director, Research and Development – Fabric and Home Care Research – Household Products Research  
Mar. 2011 Vice President, Research and Development – Beauty Research – Hair Beauty Research  
Jan. 2014 Vice President, Research and Development – Core Technology; Vice President, Research and Development – Eco-Innovation Research  
Mar. 2014 Executive Officer, Vice President, Research and Development  
Mar. 2015 Senior Vice President, Research and Development (current)  
Jan. 2016 Managing Executive Officer (current)  
Mar. 2016 Member of the Board (current)



## Audit & Supervisory Board Members



**Toshiharu Numata**  
Full-time Audit & Supervisory Board Member

Apr. 1989 Joined the Company  
 Jun. 2005 Executive Officer, Vice President, Research and Development  
 Jun. 2006 Member of the Board, Executive Officer; and Senior Vice President, Research and Development  
 Jun. 2008 Member of the Board, Executive Vice President; Senior Vice President, Research and Development; and responsible for Chemical Business, Product Quality Management; and TCR Promotion  
 May 2012 Member of the Board, Managing Executive Officer; Senior Vice President, Research and Development; and responsible for Chemical Business Unit, Product Quality Management; TCR Promotion; and China Business  
 Jun. 2012 Senior Managing Executive Officer, China; Chairman of the Board and Chief Executive Officer, Kao (China) Holding Co., Ltd.; Chairman of the Board, Kao Corporation Shanghai; Chairman of the Board, Kao (China) Research and Development Center Co., Ltd.; Chairman of the Board, Kao (Hefei) Co., Ltd.; Chairman of the Board, Kao Commercial (Shanghai) Co., Ltd.; and Chairman of the Board, Kanebo Cosmetics (China) Co., Ltd.; Chairman of the Board, Shanghai Kanebo Cosmetics Co., Ltd.  
 Mar. 2015 Full-time Audit & Supervisory Board Member (current)



**Yumiko Waseda**  
Independent Outside Audit & Supervisory Board Member

Attorney-at-Law  
 Apr. 1985 Registered as an attorney-at-law; joined Masayuki Matsuda Law & Patent Offices (currently Mori Hamada & Matsumoto, a law firm)  
 Apr. 2013 Joined Tokyo Roppongi Law & Patent Offices  
 Jan. 2014 Partner, Tokyo Roppongi Law & Patent Offices (current)  
 Mar. 2014 Audit & Supervisory Board Member, Kao Corporation (current)



**Katsuya Fujii**  
Full-time Audit & Supervisory Board Member

Apr. 1980 Joined the Company  
 Mar. 2003 IR Group Leader, Accounting and Finance  
 Jun. 2011 Financial Director, Accounting and Finance  
 Mar. 2017 Full-time Audit & Supervisory Board Member (current)



**Toraki Inoue**  
Independent Outside Audit & Supervisory Board Member

Certified Public Accountant  
 Representative Director, President, Accounting Advisory Co., Ltd.  
 Oct. 1980 Joined Arthur Andersen LLP  
 Dec. 1985 Registered as a certified public accountant  
 Jun. 1987 Resided at New York Office of Arthur Andersen  
 Oct. 1995 National Partner of Arthur Andersen  
 Oct. 1997 Worldwide Partner of Arthur Andersen  
 Jul. 1999 Representative Partner, Asahi & Co.  
 Jul. 2008 Toraki Inoue Certified Public Accountant Office (current)  
 Jun. 2010 Representative Director, President, Accounting Advisory Co., Ltd. (current)  
 Mar. 2016 Audit & Supervisory Board Member, Kao Corporation (current)



**Hideki Amano**  
Independent Outside Audit & Supervisory Board Member

Certified Public Accountant  
 Outside Director, Toppan Forms Co., Ltd.  
 Apr. 1976 Joined Arthur Andersen LLP  
 Sep. 1980 Registered as a certified public accountant  
 Jun. 1984 Transferred to Arthur Andersen Düsseldorf Office, Germany  
 Sep. 1992 Senior Partner, Inoue Saito Eiwa Audit Corporation  
 Sep. 2011 Vice-Chairman of the Board of Trustees, KPMG AZSA LLC; member of KPMG Global Audit Steering Group  
 Jul. 2015 Executive Senior Partner, KPMG AZSA LLC  
 Jul. 2016 Outside Director, Toppan Forms Co., Ltd. (current)  
 Mar. 2017 Audit & Supervisory Board Member, Kao Corporation (current)

**Executive Officers and Executive Fellows** (as of March 21, 2017)

**Executive Officers**

**Michitaka Sawada**

President and Chief Executive Officer

**Katsuhiko Yoshida**

Senior Managing Executive Officer  
President, Consumer Products  
Senior Vice President, Marketing Research and Development  
Responsible for Kao Professional Services Co., Ltd.

**Toshiaki Takeuchi**

Senior Managing Executive Officer  
Representative Director, President, Kao Group Customer Marketing Co., Ltd.  
Representative Director, President, Kao Customer Marketing Co., Ltd.

**Masumi Natsusaka**

Managing Executive Officer  
Responsible for Beauty Care Business  
President, Beauty Care – Cosmetics Business Unit  
Representative Director, President, Kanebo Cosmetics Inc.  
Chairman of the Board, Molton Brown Limited

**Motohiro Morimura**

Managing Executive Officer  
Senior Vice President, Supply Chain Management  
Responsible for TCR Promotion

**Yasushi Aoki**

Managing Executive Officer  
Senior Vice President, Human Capital Development  
Representative Director, Chairman of the Board, Kanebo Cosmetics Inc.  
Senior Executive Officer, Senior Vice President, Human Resources and Administration, Kanebo Cosmetics Inc.  
President, Kao Group Corporate Pension Fund

**Hideko Aoki**

Managing Executive Officer  
Senior Vice President, Product Quality Management

**Kozo Saito**

Managing Executive Officer  
President, Consumer Products – International Business Management  
Chairman of the Board, Kao USA Inc.

**Yoshihiro Hasebe**

Managing Executive Officer  
Senior Vice President, Research and Development

**Yoshimichi Saita**

Executive Officer  
Senior Vice President, Media Planning and Management

**Tadaaki Sugiyama**

Executive Officer  
Senior Vice President, Legal and Compliance

**Masakazu Negoro**

Executive Officer  
President, Chemical Business Unit  
Chairman of the Board, Fatty Chemical (Malaysia) Sdn. Bhd.  
Chairman of the Board, Filipinas Kao, Inc.  
President, Kao Chemicals Europe, S.L.

**Hideki Tanaka**

Executive Officer  
Senior Vice President, Procurement

**Takehiko Shinto**

Executive Officer  
Representative Director, Executive Vice President, Kao Group Customer Marketing Co., Ltd.  
Representative Director, President, Kanebo Cosmetics Sales Inc.

**Jun Shida**

Executive Officer  
Vice President, Research and Development – Development Research – Health Care and Household

**Yasushi Wada**

Executive Officer  
Vice President, Supply Chain Management – Demand and Supply Planning Center

**Tomoharu Matsuda**

Executive Officer  
President, Beauty Care – Skin Care and Hair Care Business Unit

**Masayuki Abe**

Executive Officer  
Senior Vice President, Enterprise Information Solutions

**Naoki Komoda**

Executive Officer  
President, Fabric and Home Care Business Unit

**Hitoshi Hosokawa**

Executive Officer  
Vice President, Research and Development – Development Research – Skin Care, Hair Care, and Cosmetics

**Hiroyuki Yamashita**

Executive Officer  
Vice President, Supply Chain Management – Technology Development Center  
Vice President, Supply Chain Management – Demand and Supply Planning Center – Human Health Care

**Minoru Nakanishi**

Executive Officer  
Regional Executive Officer, President, Consumer Products, Greater China  
Chairman of the Board and President, Kao (China) Holding Co., Ltd.  
Chairman of the Board, Kao Corporation Shanghai  
Chairman of the Board, Kao Commercial (Shanghai) Co., Ltd.  
Chairman of the Board, Kao (Hefei) Co., Ltd.  
Chairman of the Board, Kanebo Cosmetics (China) Co., Ltd.

**Akemi Ishiwata**

Executive Officer  
Senior Vice President, Corporate Communications

**Satoru Tanaka**

Executive Officer  
President, Human Health Care Business Unit

**Shigeru Ueyama**

Executive Officer  
Senior Vice President, Corporate Strategy

**Kenichi Yamauchi**

Executive Officer  
Senior Vice President, Accounting and Finance  
President, Kao America Inc.

**Executive Fellows**

**Yoshinori Takema**

Corporate Executive Fellow

**Takuji Yasukawa**

Corporate Executive Fellow

**Minoru Utsumi**

Corporate Executive Fellow

**Yuji Furui**

Corporate Executive Fellow  
Doctor of Medical Science

**Chiaki Mukai**

Corporate Executive Fellow  
Astronaut; Doctor of Medical Science

Note: Executive Fellows promote activities that work to further advance cooperation with outside parties by leveraging their expertise and external networks.

# Compliance

## Basic Approach

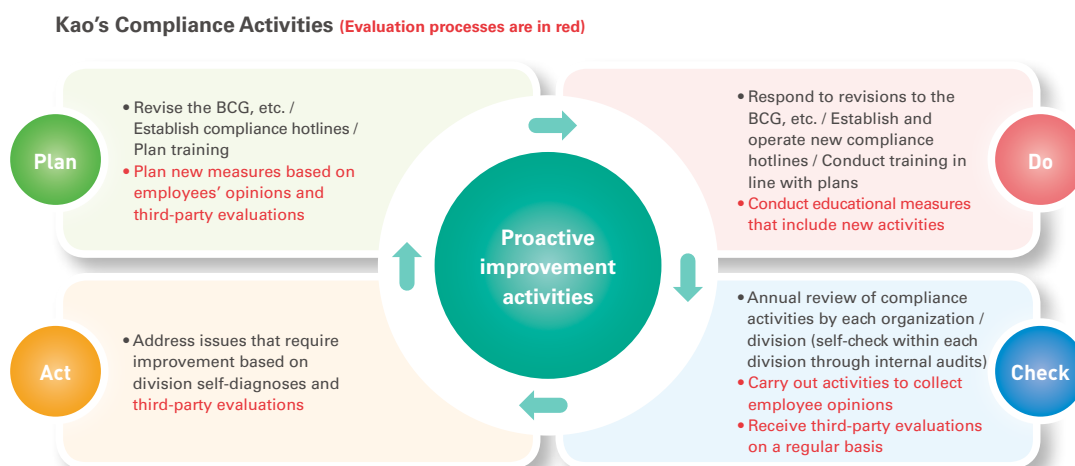
Kao upholds the principle of *Integrity*, passed down from its founder, as one of the “Values” of its corporate philosophy, the *Kao Way*. *Integrity* means aiming for behaving lawfully and ethically and conducting fair and honest business activities. Kao regards this word as the starting point of compliance in its corporate activities and promotes it as a foundation for earning the respect and trust of all stakeholders.

## Promotion Structure

Kao has established a Compliance Committee, chaired by a Representative Director and made up of representatives from relevant divisions and subsidiaries and associates, which determines medium-to-long-term and annual action plans. Based on these plans, the Committee (1) discusses the establishment and revision of Kao’s Code of Conduct, the Kao Business Conduct Guidelines (BCG), and other internal compliance-related guidelines; (2) implements educational activities to promote the spread and establishment of corporate ethics both in Japan and overseas; and (3) monitors responses to the compliance hotlines. The Committee also reports other important matters and provides an overview of its activities to the Board of Directors at least once a year.

## PDCA Cycle for Kao’s Compliance Activities

To provide feedback on the annual reporting from the Board of Directors and to confirm the validity and appropriateness of the compliance activities being conducted so that they may become more effective, Kao asks the opinions of those responsible for promoting compliance initiatives and general staff in all divisions within the Company through Compliance Roundtables. Kao also obtains verification from a consulting firm outside the Company, responds to outside evaluation institutions, and receives feedback on these responses. Through these means, Kao establishes action plans for subsequent years.



## Main Compliance Activities in 2016

- Revised the BCG and made said revisions well known throughout the Group
- Conducted educational activities (group training, e-learning, roundtable discussions, etc.)
- Rolled out a wide variety of special initiatives during Compliance Awareness Month
- Selected as one of the World’s Most Ethical Companies for 11 consecutive years



World’s Most Ethical Companies award ceremony

# Risk and Crisis Management

## Basic Approach

Kao regards the potential negative impact on its management targets and business activities as a “risk” and the manifestation of such risk as a “crisis.” Kao appropriately manages the various risks and crises that could occur throughout its overall business activities in accordance with the Kao Risk and Crisis Management Policy.

## Major Risks and Important Initiatives

Since 2015, Kao has been expanding its risk management domains to include not only operational risks but also strategic risks, identifying corporate risks and introducing systems to manage such risks, bolstering its response structure in the event of a crisis, and improving crisis awareness. Through these efforts, Kao is working to realize an even higher level of risk and crisis management.

### Major risks:

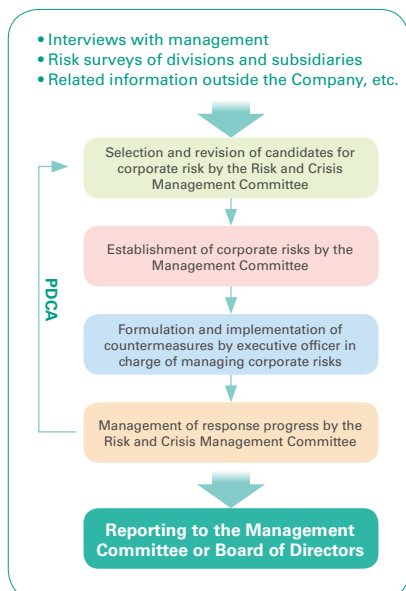
- Inability to respond to the changing needs of consumers
- Occurrence of major quality issues and concerns over the safety and security of Kao products
- Hindrances to product supply due to natural disaster or accident
- Restrictions on business activities due to major law violations, regulation changes, or additional regulations
- Leak of confidential or personal information, among others

## Promotion Structure

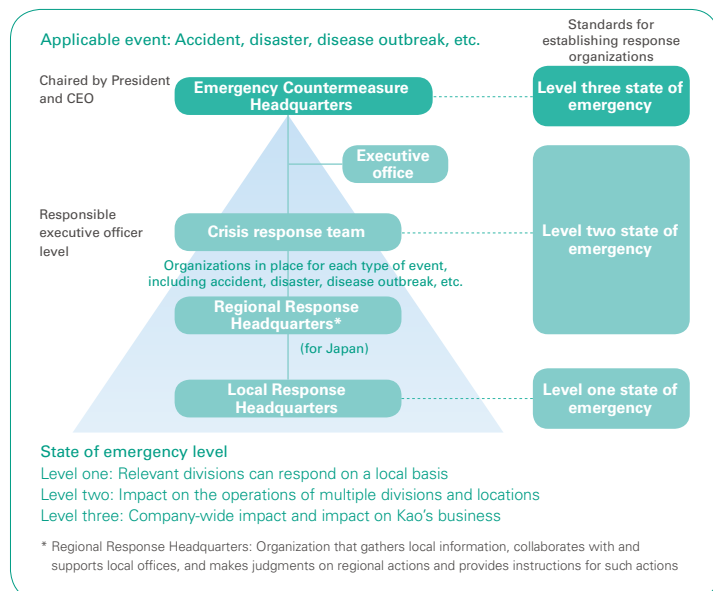
The Risk and Crisis Management Committee, chaired by an executive officer in charge of risk and crisis management, establishes a system and operating plans for risk management. Each division, subsidiary, and affiliated company ascertains and evaluates risk based on these operating plans and conducts risk management by formulating and implementing appropriate countermeasures. Furthermore, the Management Committee has designated major management risks that would have a significant impact on Kao’s business as “corporate risks,” and executive officers who are in charge of managing such risks formulate and implement the necessary countermeasures. In these ways, Kao is strengthening its Company-wide response to risk.

When a crisis occurs, Kao responds promptly to minimize physical damages and financial losses by establishing an organization for countermeasures. This organization centers on the executive officer in charge of managing corporate risks as well as on personnel responsible for managing risk within Company divisions and at subsidiaries and affiliates. In addition, depending on the magnitude of the impact on the Kao Group as a whole, Kao also establishes a countermeasure headquarters with the President and CEO or executive officer as its general manager. Management of the above-mentioned risks and crises is reported and discussed at the meetings of the Management Committee or the Board of Directors on a regular basis as well as in a timely fashion whenever necessary.

## Management of Corporate Risk



## Management Structure during Time of Crisis



# Results of Kao's Value Creation

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# Status of Kao's Business Activities

## Overview of Kao's Business

Consumer Products Business

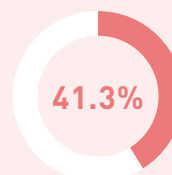
▶▶ P62

Net Sales and Operating Income  
Composition Ratios\*

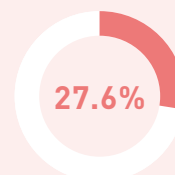
### Beauty Care Business



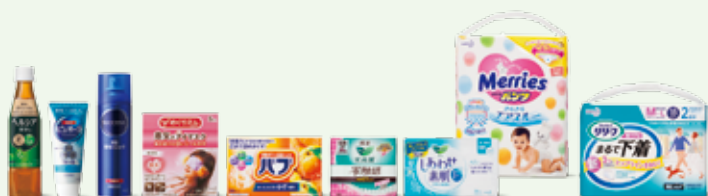
Net Sales



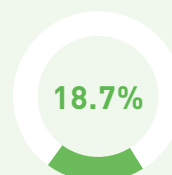
Operating Income



### Human Health Care Business



Net Sales



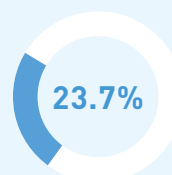
Operating Income



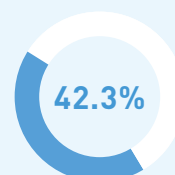
### Fabric and Home Care Business



Net Sales



Operating Income



Chemical Business

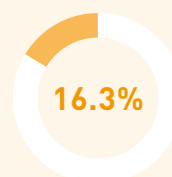
▶▶ P70

Net Sales and Operating Income  
Composition Ratios\*

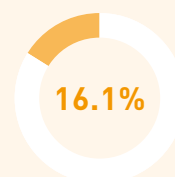
### Chemical Business



Net Sales



Operating Income



\* Net sales composition ratios are calculated using sales to customers.  
Operating income composition ratios are calculated before the elimination of transactions between segments.

## Business Content

### Cosmetics

▶▶ P64

With our leading technologies, we offer cosmetics products that allow consumers to realize their own unique beauty. Our major brands include *Sofina*, *Kanebo*, *RMK*, and *Molton Brown*, and each one of our brands has its own individual appeal. Through these brands, we provide products to consumers around the world tailored to diverse standards of beauty.

### Skin Care and Hair Care Products

▶▶ P65

We offer skin care products, such as face washes and body cleansers, and hair care products, such as shampoos, conditioners, and hair coloring products. In the mass market, our major brands for skin care products are *Bioré*, *Curél*, and *Jergens*. For hair care products, our main brands are *Essential*, *Liese*, and *John Frieda*. In the professional market, which includes beauty salons, we offer such brands as *Goldwell*.

▶▶ P66

The Human Health Care Business offers products that help consumers live healthy and comfortable lives. These products include sanitary products created with our proprietary technologies, functional health beverages with innovative benefits, and other products such as toothpaste and bath additives. Our leading brands in this business include *Laurier* sanitary napkins, *Merries* baby diapers, *Healthya* functional health beverages, *Clearclean* toothpaste, and *Bub* bath additives. In particular, Kao's sanitary napkins and baby diapers, which it offers primarily in Japan and other major Asian markets, provide high added value, including high absorbency and gentleness on the skin, making them very popular among consumers.

▶▶ P67

The Fabric and Home Care Business offers fabric care products such as laundry detergents and fabric softeners, as well as home care products such as dishwashing detergents and household cleaners. These products are designed for quality, functionality, and ease of use, allowing consumers to enjoy a clean and comfortable lifestyle. Leading brands in this business include *Attack* laundry detergent, *Haiter* laundry bleach, and *Magiclean* household cleaner, all widely used in Japan and Asia. As environmental awareness has grown in recent years, and social changes such as an increased number of women in the workforce have been occurring, Kao has continued to offer new value through its products, including laundry detergents that allow for single-rinse options and eliminate the need for scrubbing stains, as well as dishwashing detergents that do not require the use of a sponge.

### Sales companies in Japan

▶▶ P68

Kao Group Customer Marketing Co., Ltd.

▶▶ P82

Major Subsidiaries and Associates

### Sales companies outside Japan Subsidiaries / associates

▶▶ P82

Major Subsidiaries and Associates

## Business Content

▶▶ P70

The Chemical Business offers a broad variety of chemical products on a global scale, including oleo chemicals manufactured from natural fats and oils, performance chemicals such as surfactants, and specialty chemicals such as toners, toner binders, and fragrances.

Products such as fatty alcohol made from natural fats and oils, various kinds of surfactants, high performance superplasticizers for concrete, and toner binders enrich people's lives across a broad range of global industries, including information technology, electronics, and construction.

The Chemical Business supplies products not only to outside customers but also to Kao's Consumer Products Business. In doing so, the Chemical Business is contributing to the creation of new value.

### Subsidiaries / associates

▶▶ P82

Major Subsidiaries and Associates

## Consumer Products Business



**Katsuhiko Yoshida**  
 Representative Director  
 Senior Managing Executive Officer  
 President, Consumer Products

### Business Environment and FY2016 Results and Issues

#### Business Environment

While inbound demand\*<sup>1</sup> declined, the markets for household and personal care products and cosmetics products remained solid, with the household and personal care products market growing by 1% year on year and the cosmetics market remaining flat. In the consumer products market in Japan, the shift toward high-value-added products gradually continued, with higher quality products responding well with consumers and becoming entrenched in their daily lives. In addition, the market for cosmetics products in both high and low price ranges expanded. Inbound demand helped to support, and eventually stabilize, the market for high-priced cosmetics. However, competition intensified due to a large number of companies from other industries entering the cosmetics market. Overall, markets in Asia were solid, although conditions were tough due to rapid foreign currency fluctuations and a slowdown in the economies of emerging countries, starting with China. Markets in the Americas and Europe were healthy on the

whole as well, despite such issues as the Brexit decision and the threat of frequent terrorist attacks.

#### FY2016 Results and Issues

In Japan, we began offering household and personal care products not only on the mass market,\*<sup>2</sup> which has a large number of consumers, but also on the "small mass" market,\*<sup>3</sup> which is geared toward higher levels of consumer satisfaction. Accordingly, our brand loyalty and operating margin rose while our brand items increased. As a result, in Consumer Products Business, especially skin care and home care products, together with other solid-performing businesses, contributed to driving operating income, which was partially offset by diminishing resale demand for *Merries* baby diapers.

In addition, our cosmetics business began to perform favorably thanks to the commencement of major reforms. In Asia, sales of *Merries* outside Japan, including in China, helped offset the diminishing resale demand for diapers in Japan. Furthermore, the business in Indonesia and Taiwan performed strongly. Sales of skin care products and *Molton Brown* brand were solid in the Americas and Europe, thereby steadily generating profits. Some of the issues we face in the future are making sure the major reforms to the cosmetics business go as planned and ensuring growth in the food business as well as in our overall business in Asia, which centers on China, including cross-border e-commerce.

\*1 Demand by foreigners visiting Japan \*2 The market that targets consumers without specifying a particular demographic  
 \*3 A term created by Kao that refers to a market that is smaller than the mass market but still has a fairly substantial size

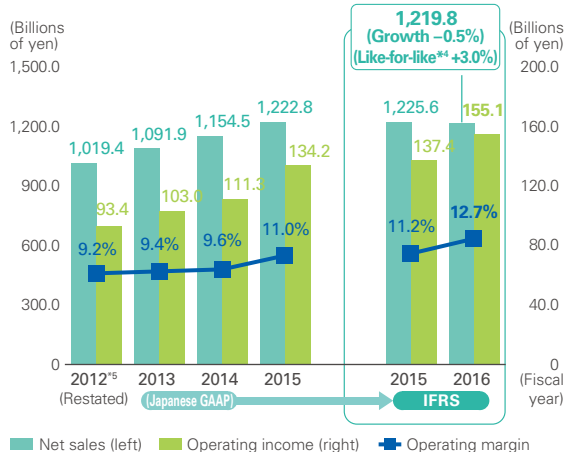
#### Trends in Net Sales and Operating Income

**Net sales**  
 ▶▶ **1,219.8** billion yen  
 (-0.5% year on year / like-for-like\*<sup>4</sup> +3.0% year on year)

**Operating income**  
 ▶▶ **155.1** billion yen  
 (+17.7 billion yen year on year)

**Operating margin**  
 ▶▶ **12.7%**  
 (+1.5 percentage points year on year)

#### Net Sales of the Consumer Products Business



\*4 Like-for-like growth excludes the effect of currency translation. \*5 As Kao changed its fiscal year end for FY2012 from March 31 to December 31, the term of consolidation for FY2012 consists of a 9-month period. The figures for FY2012 (restated) have been adjusted to reflect the performance of Kao Group companies, which had previously ended their fiscal year on March 31, over the 12-month period from January 1, 2012 to December 31, 2012.



## Looking toward 2020

### Better Understand Changes in Consumer Trends, Increase New Offerings for Daily Life, and Take On Challenges in New Markets

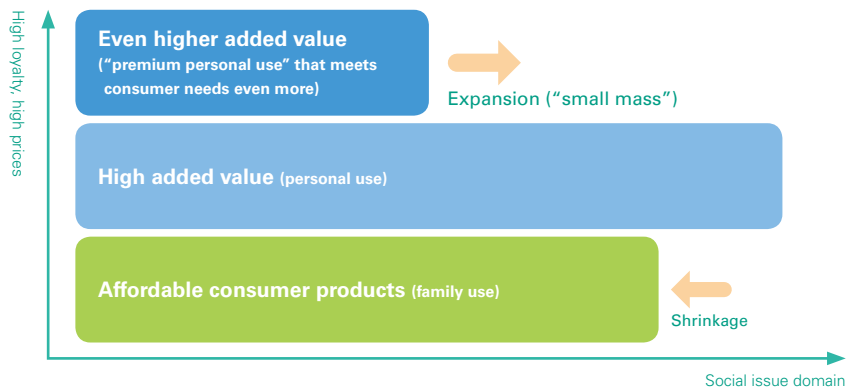
The changes in values brought about by the shift toward an IT-based society, including the increased use of the Internet, mobile phones, and smartphone apps, have had a significant impact on the lifestyles of young consumers. Values that have been passed down from previous generations are beginning to fade away, and new values are being created and shared in their place. More diverse ways of thinking and living are emerging, and accordingly there is a growing need for more diverse products. Given these circumstances, we will promote product strategies that improve the quality of life for a wide range of consumers, from those who still follow conventional value systems to those who are adopting new ones.

To be successful in this endeavor, we will continue to make meticulous efforts to gather consumer opinions regarding the issues they face as well as what topics they view as popular, not only in the context of products. Based on this information, we will increase new offerings for daily life and take on challenges in new markets. At the same time, we will further expand social movements by providing products geared toward households with children, dual-income households, and the aging society.

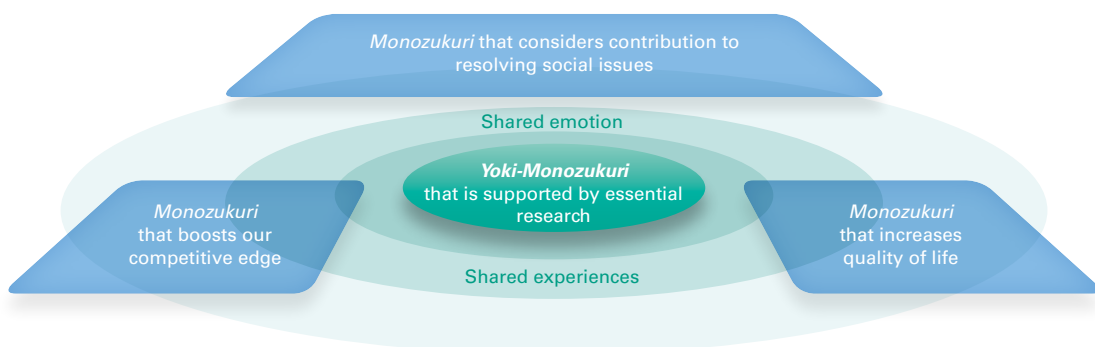
In particular, we will develop products from the perspective of Universal Design in an effort to respond to the aging society. We will also be more proactive in developing products that address environmental issues, which are needed on a global scale. In these ways, we will push forward with *Yoki-Monozukuri*\*<sup>6</sup> with the aim of realizing a sustainable society.

Guided by this approach, we will create new mainstay businesses by invigorating the market and bringing about innovation. In doing so, we will realize growth not only in the near future but over the medium to long term as well.

### Direction of Market Creation and Invigoration



### State of *Yoki-Monozukuri*\*<sup>6</sup> Initiatives



\*6 We define *Yoki-Monozukuri* as "a strong commitment by all members of the Kao Group to provide products and brands of excellent value for consumer satisfaction". This core concept distinguishes Kao from all others.

Consumer Products Business

Beauty Care Business

FY2016 Results

Net sales: 601.6 billion yen  
 (-1.1% year on year / like-for-like\* +2.9% year on year)  
 Operating income: 51.1 billion yen (+13.2 billion yen year on year)  
 Operating margin: 8.5% (+2.3 percentage points year on year)  
 \* Like-for-like growth excludes the effect of currency translation.

Looking toward 2020 Cosmetics

In the cosmetics business, we will be keen on the essentials and work to invigorate our brands amid the changing times. To this end, we will inherit and further develop important assets while carrying out thorough changes in areas that need to be changed (tradition and innovation). In doing so, we aim to be the No. 1 cosmetics company in Asia.

Enhancing the Uniqueness of the Sofina and Kanebo Brands to Create New Value

Sofina

Through an approach that uses research based on skin science and health science, we will boost Sofina's originality as a brand that takes a holistic approach to beauty. By offering proposals for "regenerating consumers' natural beauty," we aim to become a lifetime partner to the consumer in the field of beauty. We will also integrate sub-brands with the idea of making Sofina one unified brand.

Kanebo

Based on skin science and *kansei* (sensitivity) science, we will enhance the uniqueness of the Kanebo brand in creating products that offer a total sensory experience. In addition, we will deepen our personalized counseling in order to engage with the consumer to better reflect their perspectives while introducing new "chrono beauty" counseling that gives consideration to the rhythm of women's lifestyles. "Chrono beauty" counseling is a new counseling method unique to Kanebo that has been made possible by decades of interviews with consumers about their lifestyles. Also, by enhancing the strong points of each of our major brands, we will promote the creation of brands that "add sparkle to every woman's personality."

Selecting and Concentrating on Brands for Focused Investments

- Focus investment on three priority brands: KANEBO, KATE, and Sofina
- Nurture five brands on a global scale: SENSAI, LUNASOL, freepius, suisai, and RMK

Accelerating New Market Cultivation in Asia

- In addition to global products, we will promote the development of products focused on Asia for the KATE and Sofina Primavista Ange brands and establish supply chain management
- Conduct marketing activities centered on major urban areas and utilize social media and e-commerce
- Shift from the restructuring phase to a proactive phase of businesses in China

Example Major Initiatives to Create Change

- November 2015 Launch of **SOFINA iP** (Japan)
  - High-concentration carbonated foam (base essence)
  - Chlorogenic acid drink
- September 2016 Launch of **Sofina basic skin care series** (Japan)
  - Highly moisturizing face lotion
  - Highly moisturizing milk lotion
- September 2016~ Launch of **KANEBO** (Japan, Thailand, Singapore, and Malaysia)
  - New prestige brand for women who are keen on the essentials and empathize with a universal beauty



Three-step proposal for a new style of maintenance: SOFINA iP high-concentration carbonated foam (base essence), highly moisturizing face lotion, and highly moisturizing milk lotion



## Looking toward 2020 Skin Care and Hair Care Products

We will work to realize truly healthy and beautiful skin and hair through the proposal of products that allow all kinds of people to display their individual beauty to its full extent. In this way, we will contribute to improving people's lifestyles. By developing unique products with even higher added value, the skin care and hair care businesses will help drive global expansion and boost profits.

### Promoting the Global Reinforcement of the Mass Skin Care Business

Recent trends in skin care needs center on hygiene, odor care, UV protection, and sensitive skin. Focusing on these trends, we will develop unique products with even higher added value. While enhancing the *Bioré*, *Curél*, and *Jergens* brands, we will make efforts to globally reinforce the mass skin care business, primarily in North America, Japan, and Asia. Through these efforts, we aim to achieve a high level of growth and profitability in the mass skin care business.

### Strengthening the Mass Hair Care Business through a Healthy Balance between the Premium Mass Brand and the Volume Mass Brand

In our core areas (Japan, the Americas, and Europe), we will strive to strengthen our development of the premium mass brand in response to the remarkable growth in the market for high-priced hair care products. In this way, we will put the mass hair care business back on a course for growth and maintain high levels of profitability. In addition, we will take on the challenge of encouraging the practical use of our new shampoo and conditioner containers, which we aim to make a global standard due to their exceptional qualities from the perspective of the environment and Universal Design. We will also improve brand loyalty for our volume mass brand. Through these means, we will make the mass hair care business even more profitable.



*Raku-raku Eco Pack Refill* containers won the Nikkei Marketing Journal Award for Superiority in the 2016 Nikkei Superior Products and Services Awards, receiving high praise for their innovation qualities.

### Promoting the Commercialization of Premium Salon Products by Leveraging Advanced Hair Care Technologies

Through the use of newly designed coloring and shape control technologies, we will prepare products with overwhelming levels of differentiation. We will also develop world-leading hair treatment procedures at beauty salons. In these ways, we aim to promote the commercialization of premium salon products and make the business a highly profitable one.

## Example Major Initiatives to Create Change

January 2016~	Introduction of <b>Raku-raku Eco Pack Refill</b> containers for four hair care brands (Japan)
January 2016~	Full-scale revamp of <b>John Frieda</b> hair care series (shift to premium brand) (United States)
January 2016	Launch of <b>Bioré Baking Soda Series</b> facial cleanser (United States)
Fall 2015~ Spring 2016	Launch of <b>Goldwell Kerasilk</b> (premium salon hair care) (Germany)
October 2016	Launch of <b>Bioré Ouchi de Esthe</b> facial care (Japan)



Complete upgrade to refill containers from the perspective of the environment and Universal Design. *Raku-raku Eco Pack Refill* is designed so that everyone, from children to the elderly, can refill containers easily.

Consumer Products Business

Human Health Care Business

FY2016 Results

Net sales: 273.1 billion yen (-3.1% year on year / like-for-like\* +1.3% year on year)

Operating income: 25.9 billion yen (-74 billion yen year on year)

Operating margin: 9.5% (-2.3 percentage points year on year)

\* Like-for-like growth excludes the effect of currency translation.



Looking toward 2020

In the Human Health Care Business, we will continue to provide high-value-added products and solutions that support the health of the body and mind of men and women of all ages with the goal of improving people's natural vitality and contributing to the creation of healthy lifestyles around the world. At the same time, we will aspire to realize profitable growth.

Continuing to Propose High-Value-Added Health Care Products

While working to invigorate and expand the health care market in Japan, we will make proposals for improving the vitality of people around the world.

We will boost product value of *Merries* baby diapers with the aim of making them "the diapers that are the most gentle on the skin," thereby supporting the healthy development of babies. We will also continue our pursuit of resolving health-related social issues at each life stage through such products as *Megurhythm* steam thermo power pads and *Healthya* functional health drinks, a Food for Specified Health Use (FOSHU) product in our business related to metabolic syndrome that helps improve metabolism and reduce body fat, in addition to oral cavity care products that help support lifelong oral health.

Accelerating Global Expansion

We will accelerate global expansion through the provision of high-value-added products developed based on health care-related evidence. We will first respond to local health care needs, primarily with products such as *Merries* baby diapers, *Laurier* sanitary napkins, and *Megurhythm* steam thermo products, and cooperate with the health-related initiatives of academic societies and universities in each country. In doing so, we will be able to offer proposals that better reflect the needs of local communities. In Asia, we will push forward even more with the provision of products by bringing about local innovations.

Contributing to the Creation of Healthy Lifestyles through Social Activities

We aim to create healthy lifestyles for people around the world through social activities such as providing care for mothers and babies at maternity hospitals, holding lectures at elementary schools on first menstruation, providing adult incontinence products at hospitals and nursing homes, and raising awareness toward oral health.

Example Major Initiatives to Create Change

- July 2016 Revamp of **Healthya Green Tea** (Japan)  
Creation of new market for functional health drinks by promoting the metabolism qualities of our products
- October 2016 Certification from PERDOSK, the Indonesian dermatologist association, approving the skin benefits of Kao's baby diapers
- October 2016 Launch of newly improved **Relief Super Slim Pants** (Japan)  
New release of super slim adult incontinence products, which are in high demand by senior citizens, and can be worn discreetly



**Healthya Green Tea**  
The one and only beverage in the area of Food for Specified Health Use that helps improve metabolism and reduce body fat



## Fabric and Home Care Business

### FY2016 Results

Net sales: 345.2 billion yen (+2.9% year on year / like-for-like\*1 +4.7% year on year)

Operating income: 78.1 billion yen (+12.0 billion yen year on year)

Operating margin: 22.6% (+2.9 percentage points year on year)

\*1 Like-for-like growth excludes the effect of currency translation.

### Looking toward 2020

Centered on the concept of cleanliness, the Fabric and Home Care Business has maintained a presence as a pillar that supports the overall business of Kao. Going forward, the Fabric and Home Care Business will realize continuous growth through the constant proposal of new solutions from the perspective of the consumer.

#### Invigorating Japanese Market as a Market Leader

While tough conditions are expected in the future due to such factors as the rapidly aging and decreasing population, Kao will work to expand and invigorate the Japanese market as a market leader. To this end, Kao places importance on leveraging its essential research to resolve various social issues.

Focusing in particular on the field of hygiene, which represents the boundary between health and cleanliness, the Fabric and Home Care Business will continuously develop and propose new, high-value-added solutions from the perspective of the consumer and work to further improve the strength of such brands as *Attack* laundry detergent and *Magiclean* household cleaner.

#### Accelerating Global Expansion by Becoming a Part of Lifestyles in Asia

In Asia, not only do standards of living differ by country and region, the environment for laundry (clothes, water quality, washing methods) and the home environment differ as well. The Fabric and Home Care Business focuses closely on lifestyles and thoroughly promotes localization through a *Consumer Driven* approach and *Genba-ism*\*2 in accordance with the Kao Way.

Going forward, in response to the increase in middle-class consumers, which is expected to occur in line with economic development, we will leverage the high-value-added hygiene technologies we have cultivated in Japan to continue to offer products that meet consumer needs in each country and region. We will also develop *Attack* laundry detergent and *Magiclean* house cleaning products as strong brands in Asia for fabric care and home care products, respectively.

In terms of our global expansion, we will accelerate the development of new markets not only in countries in which we have already entered but also in Russia, the Philippines, and other Asian regions.

\*2 *Genba* literally means "actual spot." At Kao, *Genba-ism* defines the importance of observing things "on-site," in the actual location and environment, both internally and externally, in order to maximize our understanding of the business and optimize our performance.

### Example Major Initiatives to Create Change

- September 2015 Revamp of **Attack 3D Clean Action** laundry detergent (Thailand)  
Prevents offensive odors, including the smell of sweat when wearing clothes, just by washing
- July 2016 Launch of newly improved **Ultra Attack Neo** ultra-concentrated liquid laundry detergent (Japan)  
Eliminates the need for scrubbing stains on collars and sleeves, a complaint shared by nearly 40% of housewives
- October 2016 Launch of **CuCute CLEAR Foam Spray** dishwashing detergent (Japan)  
Lifts and removes stains in areas where sponges cannot reach



With just a simple spray, new *CuCute CLEAR Foam Spray* removes stains in areas where sponges cannot reach.

## Kao Group Customer Marketing Co., Ltd.

### Business Environment and FY2016 Results and Issues

#### Business Environment

While the markets for consumer products in Japan were relatively solid in FY2016, growth is expected to stagnate over the medium term as the overall population decreases due to the impact of the aging population and declining birthrate. In addition, changes are occurring rapidly at retailers, which constitute our customer base, and there is an increased preference for grouping and a community-based approach.

Taking such changes into consideration, Kao Group Customer Marketing Co., Ltd. was established in 2016, with the aim of leveraging the comprehensive strengths of the Kao Group to create and provide new value.

#### FY2016 Results and Issues

In FY2016, we effectively leveraged the comprehensive strengths of the Kao Group under a new structure, cooperating with retailers to deliver products and their value to the consumer.

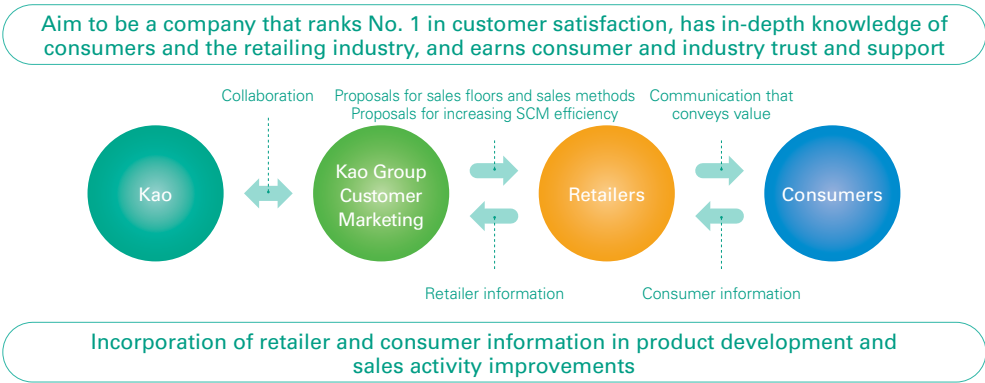
In addition to offering value, we realized strong results through the proposal and implementation of comprehensive business plans with retailers. These plans included proposals for increasing supply chain management (SCM) efficiency and collaborative initiatives related to the environment. Kao Group Customer Marketing's role has centered primarily on providing Group-wide sales functions. From FY2017, we will commence the integration of sales functions at each branch office and are promoting initiatives that allow us to leverage comprehensive strengths at the on-site level.

Meanwhile, there are a substantial number of changes occurring in the business environment to which we need to be able to respond flexibly in the future. These changes include the increase in inbound demand and expansion of cross-border e-commerce business as well as a heightened consumer preference for organic products. With the aim of promptly responding to such changes and realizing further growth, creating change on our own initiative and engaging in business activities that allow us to provide new value to retailers and consumers will be two challenges we face going forward.



**Toshiaki Takeuchi**  
 Representative Director  
 Senior Managing Executive Officer  
 Representative Director, President,  
 Kao Group Customer Marketing Co., Ltd.

### Basic Approach



## Looking toward 2020

### Aim to Be a Company That Ranks No. 1 in Customer Satisfaction

To overcome the various changes expected to occur in the business environment and to become a company that ranks No. 1 in customer satisfaction in the field of consumer products, we will focus our efforts primarily on the following activities.

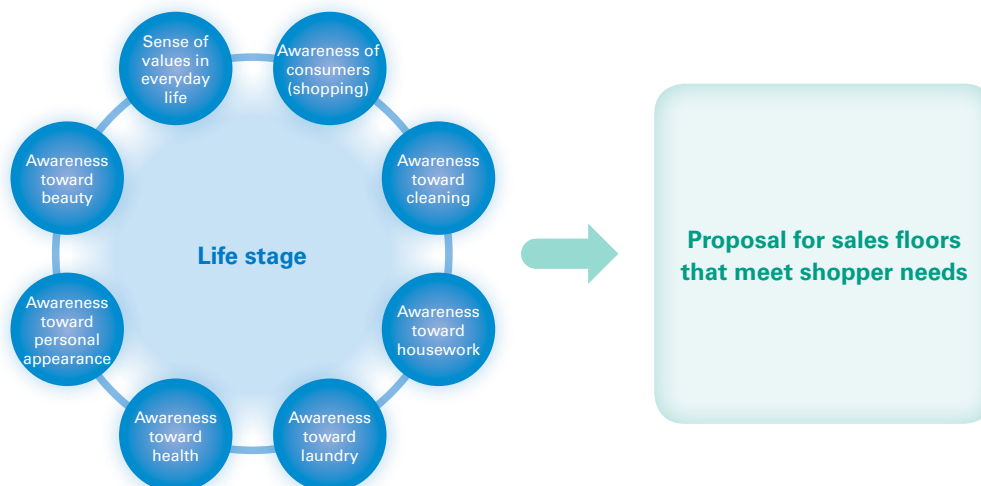
First, we will focus on strengthening the cosmetics business through deeper sales integrations. Based on consumer trends, Kao has an abundance of know-how in terms of shelf allocation and sales floor proposals for self-selection cosmetics. Kanebo Cosmetics Inc. possesses a great deal of expertise in establishing a strong customer base, including the proposal of training programs for cosmetic specialists at retailers. By effectively combining the assets that both Kao and Kanebo Cosmetics possess, we will further promote proposals that will earn the support of retail stores and consumers, without being restricted to the conventional framework of household and personal care products, self-selection, and counseling cosmetics.

Second, we will revitalize the consumer product sales floor through proposals that incorporate a consumer perspective. The consumer product sales floor tends to center around brand promotion, and the reality of the situation is that consumers are becoming dissatisfied with the lack of change and excitement in this setting. Accordingly, we will create a new type of sales floor with a focus on proposing new lifestyles that satisfy the everyday needs of consumers and help resolve the problems they face. In doing so, we will discover new demand and create consumer product sales floors that are more innovative and attractive, thereby allowing us to continue to lead the industry. Furthermore, in terms of global expansion, we will strengthen activities that communicate the value of Kao's products to the markets of Asia, an area showing remarkable growth, by leveraging the know-how we have cultivated in Japan to propose ideas for highly attractive sales floors.

### Proposing Ideas for New Sales Floors in Accordance with Shopper Needs

The sense of values and awareness of consumers differ significantly based on the kind of life stage they live.

To revitalize the consumer product sales floor, we will create a new type of sales floor that focuses on not only brand promotion but also on proposing new lifestyles that satisfy the everyday needs of consumers and help resolve the problems they face. In doing so, we will also invigorate the consumer products market.



# Chemical Business

## Chemical Business



**Masakazu Negoro**  
Executive Officer  
President, Chemical Business Unit

### Business Environment and FY2016 Results and Issues

#### Business Environment

While the economies of Japan, the Americas, and Europe are relatively stable, significant economic growth overall is unlikely due to sluggish economic growth in the Greater China and ASEAN regions. Competition is also intensifying. Under this challenging environment, it is becoming even more important to engage in initiatives that bring about market change as well as to enhance product development capabilities. Regarding raw material prices, petrochemical prices have fallen in accordance with the decline in crude oil prices, while the prices of natural fats and oils remain high. To realize stable profit growth, an accurate response to these types of changes has become essential.

#### FY2016 Results and Issues

In FY2016, we worked to expand and strengthen the Chemical Business under the strategic theme of bolstering profitability and creating and developing new businesses. We made efforts to increase the number of high-value-

added products, primarily in the Americas and Europe, and to improve the sales ratios of those products. At the same time, our activities to bolster profitability, starting with cost reductions, began to bear fruit. Furthermore, we succeeded in developing the world's first\*1 water-based pigment inkjet ink that reduces environmental impact thanks to a volatile organic compound (VOC)-free design. This ink will be used for printing on film materials used in light-weight packaging. Moreover, we established a future foundation for new businesses through the acquisition of two ink manufacturers, one located in the Americas and the other in Europe.

Meanwhile, the oleo chemical business was impacted by fluctuations in the market price for natural fats and oils as well as by accelerated product commoditization. The performance chemical business felt the effects of market stagnation, with sales levels falling below those of the previous fiscal year as a result. In the oleo chemical business, we are strengthening profitability by increasing the sales ratio of high-value-added derivatives. For the performance chemical business, we are promoting the development of products that offer solutions in anticipation of market changes. Moreover, we are accelerating the development of new products with high environmental performance. In these ways, we aim to achieve profitable growth. \*1 In-house assessment

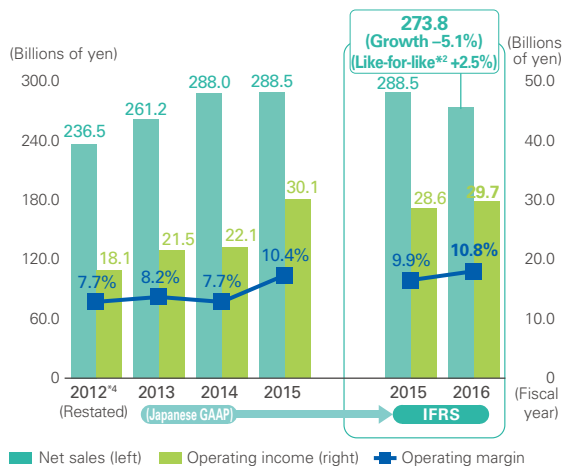
### Trends in Net Sales and Operating Income

**Net sales**  
▶▶ **273.8** billion yen  
(-5.1% year on year / like-for-like\*2 +2.5% year on year)

**Operating income**  
▶▶ **29.7** billion yen  
(+1.1 billion yen year on year)

**Operating margin**  
▶▶ **10.8** %  
(+0.9 percentage point year on year)

### Net Sales of the Chemical Business\*3



\*2 Like-for-like growth excludes the effect of currency translation. \*3 The graph presents net sales before eliminating intersegment sales.  
\*4 As Kao changed its fiscal year end for FY2012 from March 31 to December 31, the term of consolidation for FY2012 consists of a 9-month period. The figures for FY2012 (restated) have been adjusted to reflect the performance of Kao Group companies, which had previously ended their fiscal year on March 31, over the 12-month period from January 1, 2012 to December 31, 2012.



## Looking toward 2020

### Leveraging Green Innovation and Eco Technological Solutions as Two Wheels of the Chemical Business

The Chemical Business has adopted a vision of “having a global presence and contributing to a changing society with technological innovations while realizing profitable growth.” Guided by this vision, we will expand our business by leveraging our core technologies to their full extent, including our nano surfactant control technology and polymer design technology. To be successful in this endeavor, we will establish “green innovation” and “eco technological solutions” as the two wheels of the Chemical Business, drawing on our core technologies while actively conducting M&A transactions involving technologies that complement and produce synergies with these core technologies and capital investment. In doing so, we will bring about social change and use it to accelerate growth.

For “green innovation,” we will draw on Kao’s strengths and carry out investment to increase our offerings of natural fats and oils derivatives with high added value. In addition, we will further cultivate the upstream and downstream domains for these derivatives. For example, we will make use of non-edible raw materials in an effort to resolve the significant social issues of food shortages. We will also focus on downstream raw material development, one of our areas of expertise, that uses biomass materials in place of fossil materials.

With regard to “eco technological solutions,” we will ascertain customer needs and issues from an ecological perspective and provide solutions that boost customer value through groundbreaking product development. Our success in the development of VOC-free, water-based pigment inkjet ink for digital commercial printing is a representative example of such efforts. We believe that this kind of product development will provide us with opportunities to create change going forward.

Based on a vision for what we aim to be in the Chemical Business in the next 10 years, these two approaches will act as two wheels that help drive our contribution to a sustainable society through technological innovations and allow us to realize profitable growth.

### Approach to Realizing Our Vision



# Financial Information

## Historical Data

IFRS	(Millions of yen)	
	Dec. 2016	Dec. 2015
Years ended December 31, 2016 and 2015		
<b>For the year:</b>		
Economic Value Added (EVA®)	73,357	58,557
Net sales	1,457,610	1,474,550
Operating income	185,571	167,318
(% of sales)	12.7	11.3
Income before income taxes	183,430	166,038
Net income	127,889	105,952
Net income attributable to owners of the parent	126,551	105,196
Net cash flows from operating activities	184,307	181,672
Net cash flows from investing activities	(88,639)	(74,124)
Free cash flow	95,668	107,548
Net cash flows from financing activities	(95,043)	(20,773)
Capital expenditures	89,900	82,848
Depreciation and amortization	51,116	57,423
Research and development	54,567	52,699
(% of sales)	3.7	3.6
Advertising	97,437	94,745
(% of sales)	6.7	6.4
<b>At year end:</b>		
Total assets	1,338,309	1,311,064
Equity attributable to owners of the parent	679,842	680,996
Ratio of equity attributable to owners of the parent to total assets (%)	50.8	51.9
Number of employees (people)	33,195	32,282
<b>Per share:</b>		
Basic earnings per share (EPS) (yen)	253.43	209.82
Annual cash dividends per share (yen)	94.00	80.00
Number of issued shares including treasury shares at the end of the year (in thousands of shares)	504,000	504,000
Share price at the end of the year (yen)	5,541	6,255
<b>Key financial ratios:</b>		
Ratio of net income to equity attributable to owners of the parent (ROE) (%)	18.6	16.1
Ratio of income before income taxes to total assets (ROA) (%)	13.8	13.1
Notes:		
1. The Kao Group adopted IFRS for the fiscal year ended December 31, 2016.		
2. Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities		
3. Capital expenditures include investments in property, plant and equipment, intangible assets, and other non-current assets.		
4. EVA® is a registered trademark of Stern Stewart & Co.		

## Japanese GAAP

	Dec. 2015
Years ended December 31, 2015 to 2012, period ended December 31, 2012, and years ended March 31, 2012 to 2008	
<b>For the year:</b>	
Net sales	1,471,791
<b>Business segments</b>	
Beauty Care Business	607,692
Human Health Care Business	280,723
Fabric and Home Care Business	334,416
Consumer Products Business	1,222,831
Chemical Business	288,456
Eliminations	(39,496)
<b>Geographic areas</b>	
Japan	1,019,016
Asia	281,533
Asia and Oceania	—
Americas	137,827
North America	—
Europe	154,350
Eliminations	(120,935)
Operating income	164,380
Net income attributable to owners of the parent	98,862
Capital expenditures	83,414
Depreciation and amortization	73,623
Cash flows	135,394
Research and development	51,987
(% of sales)	3.5
Advertising	94,496
(% of sales)	6.4
<b>At year end:</b>	
Total assets	1,281,869
Net worth	675,608
Number of employees (people)	33,026
<b>Per share:</b>	
Net income per share (EPS) (yen)	197.19
Annual cash dividends per share (yen)	80.00
Net worth (yen)	1,347.29
Weighted average number of shares outstanding during the period (in thousands of shares)	501,352
<b>Key financial ratios:</b>	
Return on sales (%)	6.7
Return on equity (ROE) (%)	14.8
Net worth ratio (%)	52.7

(Millions of yen)

Dec. 2014	Dec. 2013	Dec. 2012 (Restated)	Dec. 2012	Mar. 2012	Mar. 2011	Mar. 2010	Mar. 2009	Mar. 2008
1,401,707	1,315,217	1,220,359	1,012,595	1,216,096	1,186,831	1,184,385	1,276,316	1,318,514
589,907	570,268	537,814	444,425	537,938	533,514	547,944	588,330	627,914
240,077	210,628	189,614	151,977	181,758	175,761	183,151	191,319	191,300
324,505	311,023	291,988	236,748	285,645	279,008	276,918	274,202	274,657
1,154,489	1,091,919	1,019,416	833,150	1,005,341	988,283	1,008,013	1,053,851	1,093,871
288,022	261,192	236,473	208,071	247,635	231,997	207,834	262,058	258,674
(40,804)	(37,894)	(35,530)	(28,626)	(36,880)	(33,449)	(31,462)	(39,593)	(34,031)
997,309	959,405	933,767	720,789	925,339	912,443	918,499	953,369	968,594
244,903	199,655	160,005	159,857	—	—	—	—	—
—	—	—	—	173,588	152,361	131,699	161,927	158,295
124,216	108,599	89,998	89,998	—	—	—	—	—
—	—	—	—	85,397	80,328	79,200	98,999	111,017
152,056	134,168	110,519	110,519	117,005	112,123	111,158	140,623	154,648
(116,777)	(86,610)	(73,930)	(68,568)	(85,233)	(70,424)	(56,171)	(78,602)	(74,040)
133,270	124,656	111,791	101,567	108,590	104,591	94,034	96,800	116,253
79,590	64,764	53,107	52,765	52,435	46,738	40,507	64,463	66,562
68,484	63,687	—	41,929	47,178	49,101	44,868	44,624	49,045
79,660	77,297	—	59,788	79,798	81,380	84,778	87,463	93,444
125,436	109,497	—	80,200	101,960	97,028	95,269	122,441	131,114
51,739	49,650	—	37,493	48,171	45,516	44,911	46,126	45,070
3.7	3.8	—	3.7	4.0	3.8	3.8	3.6	3.4
92,410	86,406	—	67,045	82,209	81,082	86,359	90,258	99,176
6.6	6.6	—	6.6	6.8	6.8	7.3	7.1	7.5
1,198,233	1,133,276	—	1,030,347	991,272	1,022,799	1,065,751	1,119,676	1,232,601
658,232	628,709	—	582,699	538,030	528,895	565,133	545,230	574,038
32,707	33,054	—	33,350	34,069	34,743	34,913	33,745	32,900
156.46	126.03	101.77	101.12	100.46	87.69	75.57	120.25	122.53
70.00	64.00	—	62.00	60.00	58.00	57.00	56.00	54.00
1,313.63	1,227.54	—	1,116.61	1,031.08	1,013.05	1,054.31	1,017.19	1,070.67
508,687	513,880	—	521,824	521,936	532,980	536,009	536,085	543,228
5.7	4.9	4.4	5.2	4.3	3.9	3.4	5.1	5.0
12.4	10.7	9.5	9.4	9.8	8.5	7.3	11.5	11.7
54.9	55.5	—	56.6	54.3	51.7	53.0	48.7	46.6

## Notes:

- Due to a change in the fiscal year end, the term of consolidation for the fiscal period ended December 31, 2012 consists of the 9 months from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the 12 months from January to December for subsidiaries whose fiscal year end was December 31.
- December 2012 (restated) represents figures for the year from January 1 to December 31, 2012, for Kao Group companies whose fiscal year end was previously March 31.
- As of January 2014, certain changes were made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe.
- Australia and New Zealand, which had been included in Asia and Oceania until the fiscal year ended March 31, 2012, were reclassified under Americas from the fiscal period ended December 31, 2012.
- Net sales by segment include intersegment sales.
- Kanebo Cosmetics Inc. and its consolidated subsidiaries are included in the consolidated statements of income from the year ended March 31, 2007, and in the consolidated balance sheets as of March 31, 2006. The results of Kanebo Cosmetics Inc., which had a fiscal year ended December 31, are included for the 11 months starting in February 2006, after the company was added to the Kao Group.
- Net sales by geographic area including inter-region sales are classified based on the location of Kao Group companies.
- The Kao Group has adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and other standards. Accordingly, "net income" has been changed to "net income attributable to owners of the parent."
- Cash flows are defined as net income attributable to owners of the parent plus depreciation and amortization minus cash dividends.
- Net income per share is computed based on the weighted average number of shares outstanding during the respective years. The portion of net income unavailable to common shareholders, such as preferred dividends, which should be included in the appropriation of retained earnings, is deducted from net income for the calculation of net income per share. The same method is applied to the calculation of net worth per share.
- Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.
- Net worth is equity, excluding non-controlling interests and stock acquisition rights.

## Consolidated Statement of Financial Position

(Millions of yen)

Kao Corporation and Consolidated Subsidiaries  
Years ended December 31, 2016 and 2015, and at the transition date

	2016	2015	Transition date
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	303,026	309,922	228,967
Trade and other receivables	208,459	210,707	212,742
Inventories	165,200	151,271	151,876
Income tax receivables	1,462	2,077	1,261
Other financial assets	13,038	5,065	4,034
Other current assets	23,812	38,005	47,299
Subtotal	714,997	717,047	646,179
Non-current assets held for sale	344	1,330	—
Total current assets	715,341	718,377	646,179
<b>Non-current assets</b>			
Property, plant and equipment	370,835	337,997	319,282
Goodwill	137,783	138,251	138,751
Intangible assets	14,689	15,705	23,626
Investments accounted for using the equity method	4,701	4,209	3,544
Other financial assets	25,473	29,339	26,088
Other non-current assets	18,548	17,732	7,966
Deferred tax assets	50,939	49,454	61,194
Total non-current assets	622,968	592,687	580,451
Total assets	1,338,309	1,311,064	1,226,630

(Millions of yen)

	2016	2015	Transition date
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	216,893	206,760	193,460
Bonds and borrowings	30,289	339	21,422
Income tax payables	32,621	32,184	28,283
Other financial liabilities	8,164	6,929	5,765
Provisions	11,370	16,772	33,360
Other current liabilities	131,112	125,422	123,916
<b>Total current liabilities</b>	<b>430,449</b>	<b>388,406</b>	<b>406,206</b>
<b>Non-current liabilities</b>			
Bonds and borrowings	90,357	120,207	80,188
Retirement benefit liabilities	94,773	75,706	77,895
Other financial liabilities	11,666	11,817	12,813
Provisions	13,809	17,704	5,296
Other non-current liabilities	5,264	4,919	5,411
Deferred tax liabilities	528	318	433
<b>Total non-current liabilities</b>	<b>216,397</b>	<b>230,671</b>	<b>182,036</b>
<b>Total liabilities</b>	<b>646,846</b>	<b>619,077</b>	<b>588,242</b>
<b>Equity</b>			
Share capital	85,424	85,424	85,424
Capital surplus	107,648	108,659	109,561
Treasury shares	(57,124)	(8,202)	(9,719)
Other components of equity	(21,821)	(4,184)	7,601
Retained earnings	565,715	499,299	431,975
<b>Equity attributable to owners of the parent</b>	<b>679,842</b>	<b>680,996</b>	<b>624,842</b>
Non-controlling interests	11,621	10,991	13,546
<b>Total equity</b>	<b>691,463</b>	<b>691,987</b>	<b>638,388</b>
<b>Total liabilities and equity</b>	<b>1,338,309</b>	<b>1,311,064</b>	<b>1,226,630</b>

## Consolidated Statement of Income

(Millions of yen)

Kao Corporation and Consolidated Subsidiaries  
Years ended December 31, 2016 and 2015

	2016	2015
Net sales	1,457,610	1,474,550
Cost of sales	(637,502)	(658,865)
Gross profit	820,108	815,685
Selling, general and administrative expenses	(633,368)	(642,729)
Other operating income	13,677	14,099
Other operating expenses	(14,846)	(19,737)
Operating income	185,571	167,318
Financial income	1,389	1,416
Financial expenses	(5,424)	(4,213)
Share of profit in investments accounted for using the equity method	1,894	1,517
Income before income taxes	183,430	166,038
Income taxes	(55,541)	(60,086)
Net income	127,889	105,952
<b>Attributable to:</b>		
Owners of the parent	126,551	105,196
Non-controlling interests	1,338	756
Net income	127,889	105,952
<b>Earnings per share</b>		
Basic (yen)	253.43	209.82
Diluted (yen)	253.18	209.53

## Consolidated Statement of Comprehensive Income

(Millions of yen)

Kao Corporation and Consolidated Subsidiaries  
Years ended December 31, 2016 and 2015

	2016	2015
<b>Net income</b>	127,889	105,952
<b>Other comprehensive income</b>		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(906)	1,795
Remeasurements of defined benefit plans	(16,111)	(770)
Share of other comprehensive income of investments accounted for using the equity method	(72)	245
Total of items that will not be reclassified to profit or loss	(17,089)	1,270
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(16,661)	(15,064)
Net gain (loss) on derivatives designated as cash flow hedges	—	12
Share of other comprehensive income of investments accounted for using the equity method	(10)	(19)
Total of items that may be reclassified subsequently to profit or loss	(16,671)	(15,071)
Other comprehensive income, net of taxes	(33,760)	(13,801)
<b>Comprehensive income</b>	94,129	92,151
<b>Attributable to:</b>		
Owners of the parent	93,284	93,011
Non-controlling interests	845	(860)
Comprehensive income	94,129	92,151

## Consolidated Statement of Changes in Equity

Kao Corporation and Consolidated Subsidiaries Year ended December 31, 2016

(Millions of yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges
January 1, 2016	85,424	108,659	(8,202)	902	(13,513)	(3)
Net income	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	(16,248)	7
Comprehensive income	—	—	—	—	(16,248)	7
Disposal of treasury shares	—	—	1,099	(189)	—	—
Purchase of treasury shares	—	—	(50,021)	—	—	—
Share-based payment transactions	—	—	—	227	—	—
Dividends	—	—	—	—	—	—
Changes in the ownership interest in subsidiaries	—	(1,011)	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(29)	—	—
Other increase (decrease)	—	—	—	—	—	—
Total transactions with the owners	—	(1,011)	(48,922)	9	—	—
December 31, 2016	85,424	107,648	(57,124)	911	(29,761)	4

(Millions of yen)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Other components of equity			Retained earnings	Total			
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total					
January 1, 2016	8,430	—	(4,184)	499,299	680,996	10,991	691,987	
Net income	—	—	—	126,551	126,551	1,338	127,889	
Other comprehensive income	(970)	(16,056)	(33,267)	—	(33,267)	(493)	(33,760)	
Comprehensive income	(970)	(16,056)	(33,267)	126,551	93,284	845	94,129	
Disposal of treasury shares	—	—	(189)	(404)	506	—	506	
Purchase of treasury shares	—	—	—	—	(50,021)	—	(50,021)	
Share-based payment transactions	—	—	227	—	227	—	227	
Dividends	—	—	—	(44,139)	(44,139)	(955)	(45,094)	
Changes in the ownership interest in subsidiaries	—	—	—	—	(1,011)	1,007	(4)	
Transfer from other components of equity to retained earnings	(435)	16,056	15,592	(15,592)	—	—	—	
Other increase (decrease)	—	—	—	—	—	(267)	(267)	
Total transactions with the owners	(435)	16,056	15,630	(60,135)	(94,438)	(215)	(94,653)	
December 31, 2016	7,025	—	(21,821)	565,715	679,842	11,621	691,463	

## Financial Information

Kao Corporation and Consolidated Subsidiaries Year ended December 31, 2015

(Millions of yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges
January 1, 2015	85,424	109,561	(9,719)	980	—	(4)
Net income	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	(13,513)	1
Comprehensive income	—	—	—	—	(13,513)	1
Disposal of treasury shares	—	—	1,571	(231)	—	—
Purchase of treasury shares	—	—	(54)	—	—	—
Share-based payment transactions	—	—	—	225	—	—
Dividends	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary	—	(902)	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(72)	—	—
Other increase (decrease)	—	—	—	—	—	—
Total transactions with the owners	—	(902)	1,517	(78)	—	—
December 31, 2015	85,424	108,659	(8,202)	902	(13,513)	(3)

(Millions of yen)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Other components of equity			Retained earnings	Total			
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total					
January 1, 2015	6,625	—	7,601	431,975	624,842	13,546	638,388	
Net income	—	—	—	105,196	105,196	756	105,952	
Other comprehensive income	2,041	(714)	(12,185)	—	(12,185)	(1,616)	(13,801)	
Comprehensive income	2,041	(714)	(12,185)	105,196	93,011	(860)	92,151	
Disposal of treasury shares	—	—	(231)	(375)	965	—	965	
Purchase of treasury shares	—	—	—	—	(54)	—	(54)	
Share-based payment transactions	—	—	225	—	225	—	225	
Dividends	—	—	—	(37,091)	(37,091)	(1,248)	(38,339)	
Changes in the ownership interest in a subsidiary	—	—	—	—	(902)	(334)	(1,236)	
Transfer from other components of equity to retained earnings	(236)	714	406	(406)	—	—	—	
Other increase (decrease)	—	—	—	—	—	(113)	(113)	
Total transactions with the owners	(236)	714	400	(37,872)	(36,857)	(1,695)	(38,552)	
December 31, 2015	8,430	—	(4,184)	499,299	680,996	10,991	691,987	



## Consolidated Statement of Cash Flows

(Millions of yen)

Kao Corporation and Consolidated Subsidiaries  
Years ended December 31, 2016 and 2015

	2016	2015
<b>Cash flows from operating activities</b>		
Income before income taxes	183,430	166,038
Depreciation and amortization	51,116	57,423
Interest and dividend income	(1,247)	(1,266)
Interest expense	1,484	1,528
Share of profit in investments accounted for using the equity method	(1,894)	(1,517)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	3,466	3,497
(Increase) decrease in trade and other receivables	(4,049)	(4,882)
(Increase) decrease in inventories	(17,450)	(3,964)
Increase (decrease) in trade and other payables	4,388	9,707
Increase (decrease) in retirement benefit liabilities	19,967	(997)
Other	(7,175)	2,321
Subtotal	232,036	227,888
Interest received	1,003	1,004
Dividends received	1,479	1,315
Interest paid	(1,503)	(1,462)
Income taxes paid	(48,708)	(47,073)
Net cash flows from operating activities	184,307	181,672
<b>Cash flows from investing activities</b>		
Payments into time deposits	(11,570)	(2,669)
Proceeds from withdrawal of time deposits	3,703	1,355
Purchase of property, plant and equipment	(74,637)	(69,023)
Purchase of intangible assets	(5,060)	(5,598)
Acquisition of subsidiaries	(3,659)	—
Other	2,584	1,811
Net cash flows from investing activities	(88,639)	(74,124)
<b>Cash flows from financing activities</b>		
Increase (decrease) in short-term borrowings	(44)	(1,128)
Proceeds from long-term borrowings	200	40,080
Repayments of long-term borrowings	(317)	(20,068)
Purchase of treasury shares	(50,021)	(55)
Dividends paid to owners of the parent	(44,188)	(37,137)
Dividends paid to non-controlling interests	(955)	(1,248)
Other	282	(1,217)
Net cash flows from financing activities	(95,043)	(20,773)
<b>Net increase (decrease) in cash and cash equivalents</b>	625	86,775
<b>Cash and cash equivalents at the beginning of the year</b>	309,922	228,967
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(7,521)	(5,820)
<b>Cash and cash equivalents at the end of the year</b>	303,026	309,922

# Major Sustainability Indicators

## Key Area: Conservation

Materiality	Vision	Items	Results					Targets		SDGs *7
			2012	2013	2014	2015	2016	2017	2020	
Conservation	Minimize environmental impact through our business activities and contribute to environmental sustainability									
	Reduction rate for CO <sub>2</sub> emissions* <sup>1</sup>									
	Scope 1 and 2		-21%	-27%	-28%	-29%	-30%	-31%	-35%	12, 13
	Consumer products, across the lifecycle		-10%	-14%	-15%	-17%	-14%	—	—	
	Consumer products in Japan, across the lifecycle		-17%	-18%	-16%	-17%	-16%	—	-35%	
	Reduction rate for water usage* <sup>1</sup>									
	All Kao Group plants and offices		-29%	-33%	-38%	-43%	-42%	-38%	-40%	6, 12
	Consumer products, across the lifecycle		-15%	-16%	-18%	-21%	-17%	—	—	
	Consumer products in Japan, during product use		-20%	-22%	-22%	-24%	-22%	—	-30%	
	Reduction rate for waste production* <sup>1</sup>									
	All Kao Group plants and offices		-24%	-28%	-27%	-27%	-25%	-31%	-33%	12
	Percentage of sales from products displaying the "eco together" logo* <sup>2</sup>		23%	25%	27%	28%	29%	—	—	6, 9, 12, 13
	Procurement of sustainable palm oil* <sup>3</sup>		—	—	—	PKO* <sup>3</sup> Achieved traceability to the mills* <sup>4</sup>	PKO in the process of establishing traceability to the mills	PO* <sup>3</sup> Traceability to the mills	Traceability to the plantations	15
	Procurement rate for sustainable paper and pulp* <sup>5</sup>		—	—	—	96%	99%	—	100%	15
Promote further environmental activities by engaging in environmental communication with society										
Cumulative number of participants in environmental communication* <sup>6</sup> (thousands of people)		—	—	240	460	650	820	1,000	12	
Aim to contribute to the realization of a sustainable society by promoting sound chemical management through Strategic Approach to International Chemicals Management (SAICM) activities										
Number of released safety summaries for Kao priority risk assessment substances		—	—	—	7 (Total 7)	3 (Total 10)	3 (Total 13)	Total 20	3, 12	
Number of released GPS safety summaries for chemical products		12 (Total 12)	18 (Total 30)	47 (Total 77)	12 (Total 89)	18 (Total 107)	16 (Total 123)	Total 150	3, 12	

\*1 Per unit (of sales), relative to FY2005

\*2 Consumer products in Japan; sales rate of products that meet the criteria for "eco together" certification

\*3 Progress of activities to trace the palm oil used by the Kao Group back to the plantation; PKO: palm kernel oil, PO: palm oil

\*4 As of the end of 2015, we were unable to establish the traceability of some of the derivatives that we had no choice but to purchase from other companies.

\*5 Procurement rate of recycled and sustainable paper and pulp, packaging materials, and office paper used by the Kao Group

\*6 Cumulative number of participants in educational programs, factory tours, environmental events, etc., since 2014

\*7 The goals to which the Kao Group can contribute among 17 Sustainable Development Goals

## Key Area: Community

Materiality	Vision	Items	Results					Targets		SDGs
			2012	2013	2014	2015	2016	2017	2020	
Health	Improve and prevent obesity and lifestyle diseases by contributing to the creation of a society conducive to a healthy life	Number of participants in health educational programs* <sup>8</sup> (thousands of people)	—	—	1,610	2,600	2,310	2,900	5,200	3
		Number of participants in the educational programs of hygiene habits* <sup>9</sup> (thousands of people)	—	—	6,120	7,540	7,640	10,000	12,000	3, 6, 12
Aging	Support the lifestyles of the elderly by contributing to the creation of a society conducive to healthy aging, both mentally and physically	Cumulative number of the products improved with Universal Design considerations* <sup>10</sup>	420	1,303	2,066	2,876	3,585	—	—	12
		Implementation rate of improvements with Universal Design considerations* <sup>10</sup>	41%	79%	80%	91%	71%	—	—	
Partnership with the community	Engage in social activities with local communities to contribute to an improved quality of life	Number of times information was provided to employees regarding volunteer activities	—	126	79	71	67	70	80	17
		Educational activities for external parties provided through transmitted information	—	100	71	99	59	60	80	

\*8 Number of participants in walking events and events for measuring visceral fat; QUPIO users

QUPIO: A program aimed at providing support for health promotion and preventive, lifestyle improvement measures based on knowledge obtained from joint research undertaken with the University of Tokyo using a database of health checkup data for one million people that covers an extended period of time

\*9 Number of participants in the educational programs for infant care, hand and hair washing, laundry and cleaning, and menstrual hygiene (including the delivery of educational samples and tools) in Japan and the rest of Asia

\*10 Products improved with Universal Design considerations represent products improved from considerations including accessibility, safety, and usability. The implementation rate of improvements is the percentage of products improved with Universal Design considerations among all new and improved product items. The data until 2015 covers Japan, and since 2016 we have included Japan and the Americas.

## Key Area: Culture

Materiality	Vision	Items	Results					Targets		SDGs
			2012	2013	2014	2015	2016	2017	2020	
Integrity	Instillment of <i>Integrity</i> throughout the entire Kao Group	BCG test rate	70.0%	86.5%	872%	96.4%	97.5%	100%	100%	16
		Number of serious compliance violations* <sup>11</sup>	0	0	0	0	0	0	0	
Diversity and Inclusion	Maximize employee potential by Diversity and Inclusion	Percentage of female managers	23.6%	27.7%	27.6%	27.5%	25.4%* <sup>12</sup>	—	30%* <sup>13</sup>	5
		Percentage of female managers (Japan)	9.6%	10.5%	10.1%	10.4%	13.1%* <sup>12</sup>	—	15%* <sup>13</sup>	5
		Cumulative attendance rate for manager training on diversity and increasing management capabilities	—	—	—	—	8.2%	100%	200%* <sup>14</sup>	10
Employee health and safe workplaces	Improvement of health literacy and safety awareness among employees	Total participants for health promotion programs	—	—	—	—	31,885	32,900	35,900	8
		Lost time accident frequency rate* <sup>15</sup>	1.55* <sup>16</sup>	0.74* <sup>16</sup>	0.54	0.61	0.67	Less than 0.26	Less than 0.10	8

\*11 Serious compliance violations relating to the Kao Group's operations are internally defined and managed within the Kao Group.

\*12 The definition of "manager" was revised in 2016 following the promotion of integrated Group management.

\*13 Not established as targets for 2020, but targets to be quickly realized as future milestones

\*14 Cumulative attendance rate for manager training since 2016

\*15 Number of persons dead or seriously injured in occupational accidents per million hours worked (including only accidents involving at least one lost work day and also the loss of a part of the body or a bodily function)

\*16 Global production and R&D divisions

# Corporate Information

## Major Subsidiaries and Associates (As of December 31, 2016)

Country / Area (Subsidiaries)	Main business activities	Company
Japan	● ● ●	Kao Group Customer Marketing Co., Ltd.
	● ● ●	Kao Customer Marketing Co., Ltd.
	●	Kanebo Cosmetics Inc.
	●	Kanebo Cosmetics Sales Inc.
	●	e'quipe, Ltd.
	●	Kanebo Cosmillion Ltd.
	● ● ●	Kao Cosmetic Products Odawara Co., Ltd.
	● ● ●	Kao Sanitary Products Ehime Co., Ltd.
	● ● ●	Kao Professional Services Co., Ltd.
	● ● ● ●	Kao-Quaker Co., Ltd.
China	● ● ● ●	Kao Transport & Logistics Co., Ltd.
	● ● ● ●	Kao (China) Holding Co., Ltd.
	● ● ● ●	Kao Corporation Shanghai
	● ● ● ●	Kao (Hefei) Co., Ltd.
	● ● ● ●	Kao Commercial (Shanghai) Co., Ltd.
	● ● ● ●	Kanebo Cosmetics (China) Co., Ltd.
	● ● ● ●	Shanghai Kanebo Cosmetics Co., Ltd.
	● ● ● ●	Kao Chemical Corporation Shanghai
	● ● ● ●	Kao Trading Corporation Shanghai
	● ● ● ●	Kao (Shanghai) Chemical Industries Co., Ltd.
Taiwan	● ● ● ●	Kao (Hong Kong) Ltd.
Taiwan	● ● ● ●	Kao (Taiwan) Corporation
Vietnam	● ● ● ●	Kao Vietnam Co., Ltd.
Philippines	● ● ● ●	Pilipinas Kao, Inc.
Thailand	● ● ● ●	Kao Industrial (Thailand) Co., Ltd.
	● ● ● ●	Kao Commercial (Thailand) Co., Ltd.
Malaysia	● ● ● ●	Kao Soap (Malaysia) Sdn. Bhd.
	● ● ● ●	Fatty Chemical (Malaysia) Sdn. Bhd.
	● ● ● ●	Kao Plasticizer (Malaysia) Sdn. Bhd.
	● ● ● ●	Kao Oleochemical (Malaysia) Sdn. Bhd.
Singapore	● ● ● ●	Kao Singapore Private Limited
Indonesia	● ● ● ●	PT Kao Indonesia
	● ● ● ●	PT. Kao Indonesia Chemicals
Australia	● ● ● ●	Kao Australia Pty. Limited
Canada	● ● ● ●	Kao Canada Inc.
United States	● ● ● ●	Kao USA Inc.
	● ● ● ●	Kao America Inc.
	● ● ● ●	Kao Specialties Americas LLC
Mexico	● ● ● ●	Quimi-Kao, S.A. de C.V.
Germany	● ● ● ●	Kao Germany GmbH
	● ● ● ●	Guhl Ikebana GmbH
	● ● ● ●	Kao Manufacturing Germany GmbH
	● ● ● ●	Kao Chemicals GmbH
Netherlands	● ● ● ●	Kao Netherlands B.V.
United Kingdom	● ● ● ●	Kao (UK) Limited
	● ● ● ●	KPSS (UK) Limited
	● ● ● ●	Molton Brown Limited
	● ● ● ●	Kao Switzerland AG
Switzerland	● ● ● ●	Kanebo Cosmetics (Europe) Ltd.
	● ● ● ●	Kao Chemicals Europe, S.L.
Spain	● ● ● ●	Kao Corporation S.A.
	● ● ● ●	
Country / Area (Associates)	Main business activities	Company
Japan	● ● ● ●	Nivea-Kao Co., Ltd.
	● ● ● ●	Showa Kosan Co., Ltd.

### Consumer Products Business

● Beauty Care Business ● Human Health Care Business ● Fabric and Home Care Business

### Chemical Business

● Chemical Business

## Corporate Overview / Investor Information (As of December 31, 2016)

### Kao Corporation

#### Head Office

14-10, Nihonbashi Kayabacho 1-chome,  
Chuo-ku, Tokyo 103-8210, Japan  
Telephone: 81-3-3660-7111

#### Founded

June 19, 1887

#### Incorporated

May 21, 1940

#### Share Capital

85,424,265,916 yen

#### Employees

7,195

(Number of employees in  
Kao Group consolidated companies: 33,195)

#### Ordinary Shares

Authorized: 1,000,000,000 shares

Issued: 504,000,000 shares

Number of Shareholders: 66,437

#### Stock Listing

Tokyo Stock Exchange

#### Ticker Symbol Number

4452

#### Administrator of Shareholder Register

Sumitomo Mitsui Trust Bank, Limited  
8-4, Izumi 2-chome, Suginami-ku, Tokyo  
168-0063, Japan

#### Depository and Registration for American

##### Depository Receipts

##### (ADR Ticker Symbol: KCRPY)

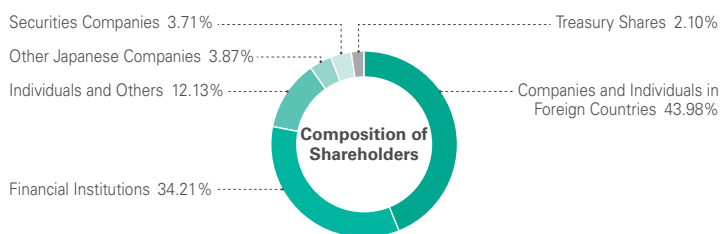
JPMorgan Chase Bank, N.A.  
1 Chase Manhattan Plaza, Floor 58,  
New York, NY 10005, U.S.A.

### Top 10 Shareholders

Name of Shareholder	Number of Shares (thousand shares)	Shareholding (percentage)
The Master Trust Bank of Japan, Ltd. (Trust Account)	35,712	7.24
Japan Trustee Services Bank, Ltd. (Trust Account)	33,237	6.74
JPMorgan Chase Bank 380055	19,817	4.02
State Street Bank and Trust Company 505223	12,954	2.63
Tokio Marine & Nichido Fire Insurance Co., Ltd.	7,809	1.58
State Street Bank West Client – Treaty 505234	7,801	1.58
Japan Trustee Services Bank, Ltd. (Trust Account 7)	7,299	1.48
The Bank of New York Mellon SA/NV 10	7,199	1.46
Nippon Life Insurance Company	6,691	1.36
National Mutual Insurance Federation of Agricultural Cooperatives	6,524	1.32

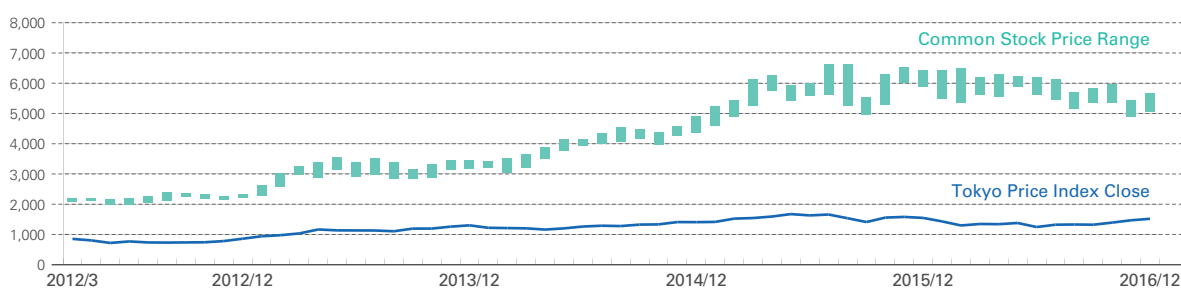
#### Notes:

- The Company holds 10,581 thousand shares of treasury shares, which is not shown in the above list.
- The number of shares in the above list may include the number of shares held in trusts or subject to share administration.
- The ratio of shareholding for each shareholder above has been calculated based on the number of issued shares excluding treasury shares.

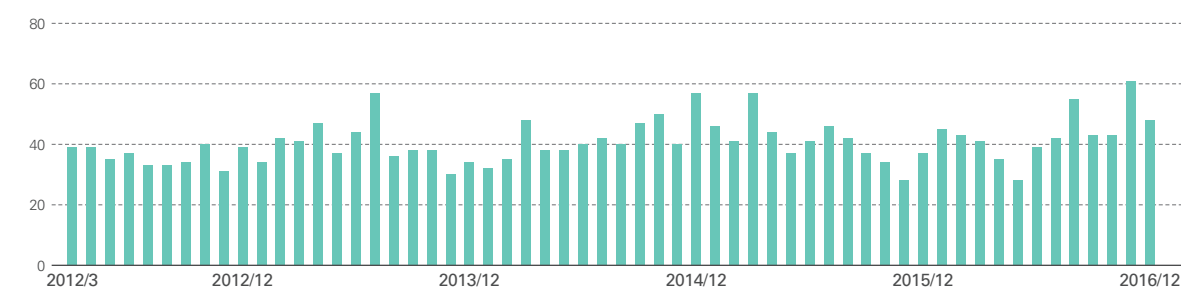


## Share Price Range and Trading Volume (Tokyo Stock Exchange)

### Share Price Range (Yen)



### Monthly Trading Volume (Million shares)



# External Evaluation

## SRI Index and Evaluation (As of May 1, 2017)

### SRI Index

For the third year in a row, Kao has been selected for inclusion in the Dow Jones World Index (DJSI World), one of the world's most renowned socially responsible investment (SRI) indices. In addition to DJSI World, Kao has also been continuously included in other major SRI indices recognized around the world.



The FTSE4Good index series  
[http://www.ftse.com/Indices/FTSE4Good\\_Index\\_Series/index.jsp](http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp)  
 MSCI  
<https://www.msci.com/esg-integration>

Morningstar Socially Responsible Investment Index  
<http://www.morningstar.co.jp/sri/index.htm>

### Evaluation

Kao was selected as a CDP Water 2016 A List company, which is the highest evaluation, in recognition of its active water resource initiatives under a survey conducted by the British NPO, the CDP, with regards to environmental measures. Furthermore, Kao has been recognized by the Ethisphere Institute, a U.S.-based organization that defines and measures corporate ethical standards, as one of the World's Most Ethical Companies for the 11th consecutive year.



# Editorial Policy

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## Integrated Report

From FY2017, Kao publishes an integrated report, combining our annual report and sustainability report. We hope that integrating our presentation of financial and non-financial information will assist readers to make a more comprehensive evaluation of our corporate value. This new style of report should also make it simpler to estimate future value, as it lays out the fundamental details for all of our value-creating activities.

### Disclaimer on Forward-looking Statements

Forward-looking statements such as earnings forecasts and other projections contained in this report are based on information available at the time of publication, and on assumptions that management believes to be reasonable. These statements are not guarantees that Kao will achieve its targets. Actual results may differ materially from Kao's expectations due to various factors.

### Scope of This Report

In principle, this report covers the activities of the Kao Group (Kao Corporation and its subsidiaries and affiliates). However, environmental and social data covers only Kao Corporation and its subsidiaries. In the event that the data does not apply to the Kao Group, the scope of such data will be specified accordingly. "Kao" refers to the Kao Group within this report. In cases where it is necessary to specify the scope of reporting, this report lists the applicable institution individually.

### Reporting Period

FY2016 (from January 1, 2016 to December 31, 2016)

However, certain sections of this report include information on activities from periods prior to FY2016 as well as on expected activities from FY2017 and onward. Also, this report covers periods outside of the reporting period in cases where it is appropriate to provide past details and data or recent examples.

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## Introduction of Various Informative Tools

Data and information on activities not covered in this report are posted on our corporate website. We also communicate various other kinds of information via this website.



Corporate Website  
<http://www.kao.com/jp/en/corp/>

Investor Relations  
[http://www.kao.com/jp/en/corp\\_ir/investors.html](http://www.kao.com/jp/en/corp_ir/investors.html)

Sustainability  
[http://www.kao.com/jp/en/corp\\_csr/csr.html](http://www.kao.com/jp/en/corp_csr/csr.html)

Research and Development  
[http://www.kao.com/jp/en/corp\\_rd/research.html](http://www.kao.com/jp/en/corp_rd/research.html)

# KaO

Enriching lives, in harmony with nature.

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