

Kao  
Integrated Report

**2018**

For the year ended  
December 31, 2017



**KaO**



# Kirei—Making Life Beautiful

The Japanese word “kirei” means beautiful or clean, not only on the outside but also on the inside. For us at Kao, Kirei is the value we want to bring to everyday life with our brands, products and services.

The little moments you enjoy, like the comfort of freshly washed sheets, the happiness you share with a smiling baby, the confidence you feel when you look in the mirror and see not only healthy skin and hair, but also your inner beauty shining through. The special pleasure that comes from using products you know have been crafted with care both for you and for the environment.

We believe these moments and the positive feelings you share with others have the power to shape the future. We want minds, lives and society to be Kirei—Making Life Beautiful.





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## Kao's ESG Activities

# Kirei Action

In the pursuit of creating a sustainable society and sustainable business growth, Kao positions ESG (Environment, Society, and Governance) activities as an investment to the future. While placing even more emphasis on these activities going forward, Kao will realize profitable growth.

Over the course of 130 years, Kao has been striving for the wholehearted satisfaction and enrichment of the lives of people by forming deep connections with them. To accomplish this task now and in the future, we will promote Kirei Action. "kirei" is a Japanese word that refers not only to beauty and cleanliness but also to people's well-being and a healthy global environment. Kirei Action represents our efforts to create products wholeheartedly and engage in activities that contribute to a better future for people and the planet.

By actively promoting ESG activities (Kirei Action), the Kao Group aims to create unique experiences and touch the hearts of all the stakeholders through products filled with passion.





Environment

Kirei for the planet

Realizing lifestyles with zero environmental impact



Society

Kirei for people

Creating a society where everyone can live comfortably



Governance

A well-trusted company

Business with *integrity*

## Fundamentals That Support Kao's Value Creation

# The Kao Way

**The source of Kao's value creation is the pursuit of *innovation* and *Yoki-Monozukuri*\*<sup>1</sup> based on *integrity*.**

At Kao, we constantly put ourselves in the position of the consumer and the customer as we take on our mission to strive for the wholehearted satisfaction and enrichment of the lives of people and to contribute to the sustainability of the world.

To fulfill this mission, the basic value of *integrity*—or in other words, honest actions—and the continuous pursuit of *innovation* are extremely important.

Through *Yoki-Monozukuri*, Kao will create products and services that are highly useful to society. This is the shared aspiration of all employees as they pursue their daily duties.

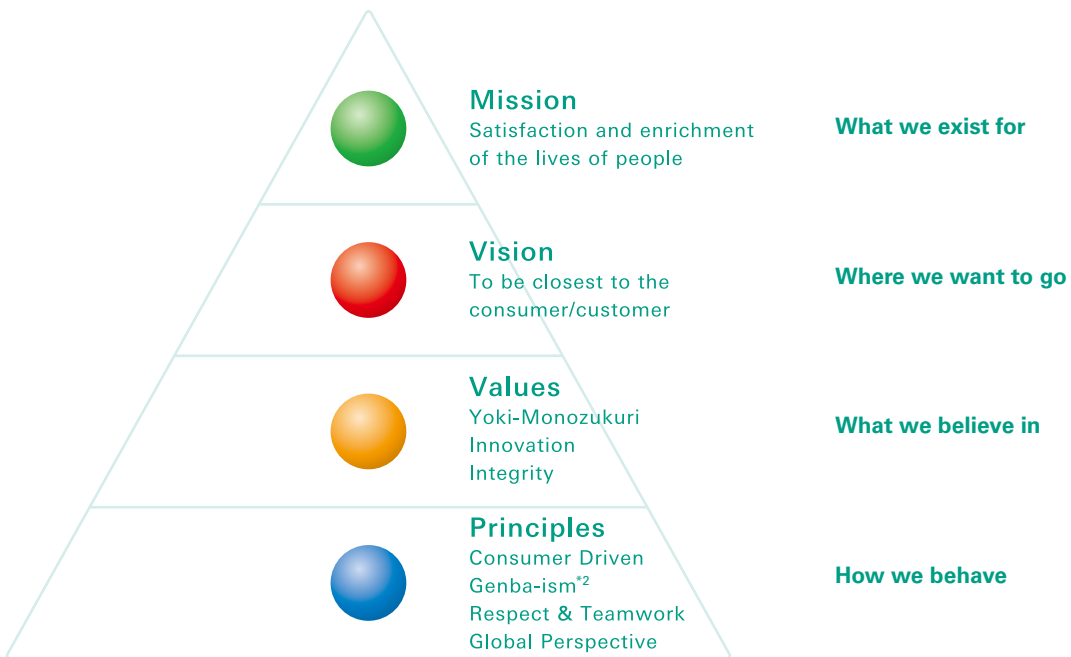
\*1 We define *Yoki-Monozukuri* as a "strong commitment by all members of the Kao Group to provide products and brands of excellent value for customer satisfaction." This core concept distinguishes Kao from all others.







The Kao Way comprises four elements: **Mission, Vision, Values, and Principles**, which are defined below.



\*<sup>2</sup> *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.

**1887**

Kao founder Tomiro Nagase launches Nagase Shoten

**1890**

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



## Fundamentals That Support Kao's Value Creation

# Essential Research

**Developing and continuously improving groundbreaking products through Essential Research.**

**Kao is a company that values honesty and diligence.**

Kao invests approximately 4% of its net sales in research and development (R&D). Moreover, nearly half of that amount is used for Fundamental Technology Research that comprises Essential Research on Human and Essential Research on Materials.

Investments in Essential Research may not always produce prompt results. However, we firmly believe that the technologies we accumulate through Essential Research provide us with the foundation for developing highly innovative, groundbreaking products that offer delight to the consumer. We also place importance on the process after product development. We listen to consumer feedback as we steadily pursue improvements, which in turn allows us to continuously spur innovation and offer delight to the consumer and society as a whole. In this manner, we have developed some of our longest-selling brands.





### Product Development Research

Kao promotes R&D efforts in product design and applied technology along with consumer research, helping us achieve a deep understanding of the needs and lifestyles of global consumers.

### Fundamental Technology Research

Kao conducts research that identifies the structure of phenomena and substances in various fields in order to make truly valuable products.



Creating  
new value  
by pursuing the essence

### Packaging Development Research

Kao's research on packaging and containers is conducted with consideration given to an aging society and the need to contribute to a more sustainable way of life that harmonizes with the environment.

### Perfumery Development Research

Through communication with consumers, we acquire an accurate grasp of their fragrance needs, which is reflected in Kao products.

## Fundamentals That Support Kao's Value Creation

# Connections with *Yoki-Monozukuri*

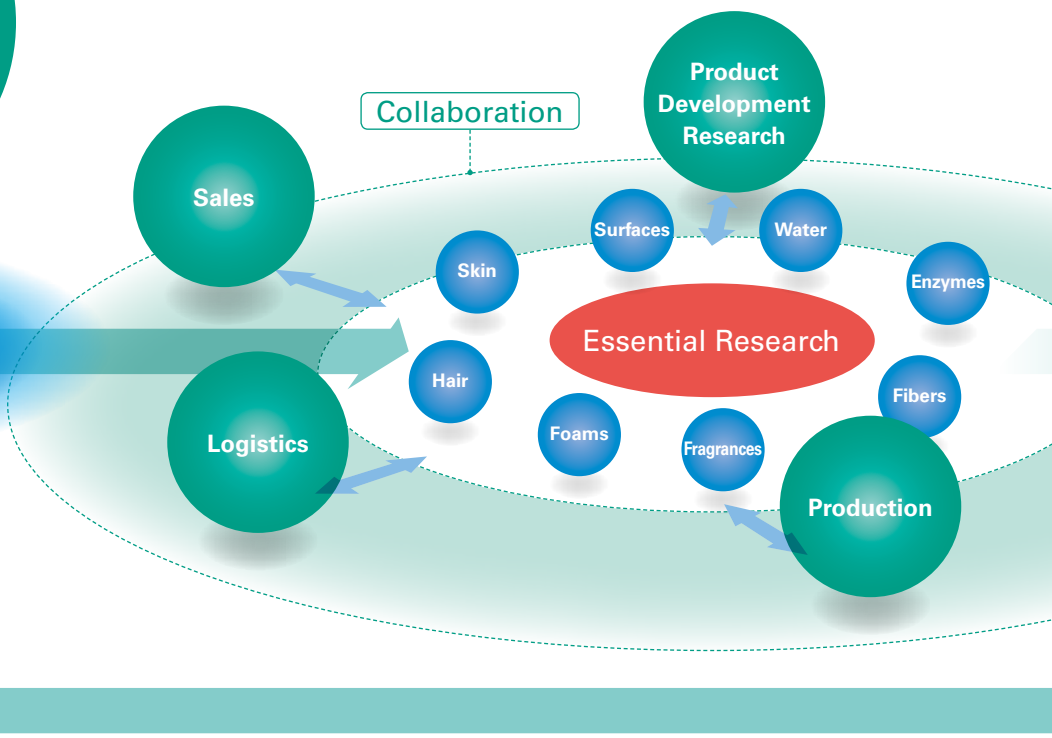
**Enhancing our comprehensive strengths through collaboration between people, organizations, and functions. Strengthening various kinds of collaborations helps us complete our value creation process.**

Kao holds conferences on its Research and Development (R&D) activities almost every month. When it comes to our accumulated technologies, we encourage their use among all researchers. This promotes collaboration between researchers and consumer-focused product professionals—and this kind of collaboration is precisely what supports the strengths of our products.

In addition, at our Consumer Communication Center, we collect an abundant amount of data from consumer inquiries and requests, which is referenced daily by our business divisions to help make product improvements on a continuous basis. We also emphasize the linking of our research with various functions such as production, logistics, and sales. In these ways, we deliver innovative products to the consumer in a timely and environmentally conscious manner.

The framework for Kao's unique value creation based on the Kao Way—our corporate philosophy that provides the foundation for all that we do

Consumer and social needs



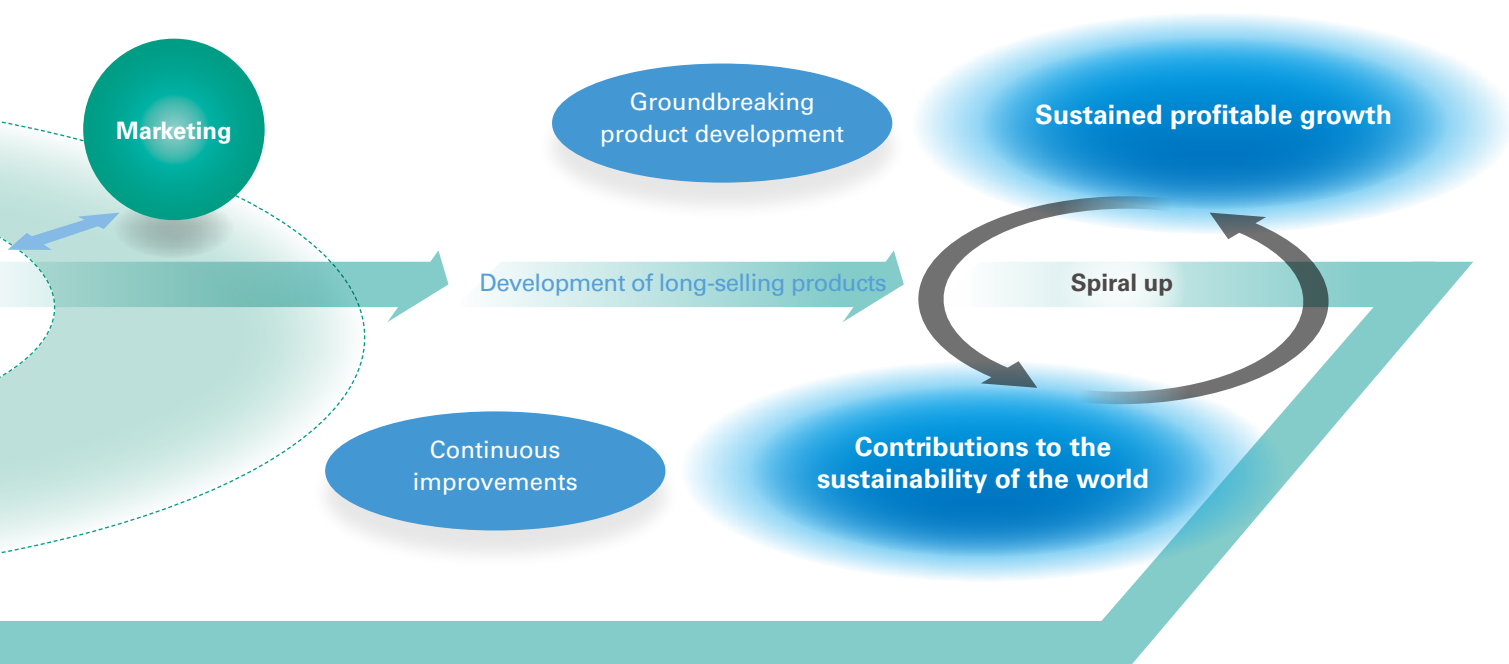


### R&D Conferences

Any employee can attend our R&D conferences, which offer an excellent opportunity to become familiar with the kind of research we conduct.

### Consumer Communication Center

At our Consumer Communication Center, we record inquiries and suggestions from consumers on the day they are received, which are in turn shared internally.



# Results of Kao's Value Creation

## Results of Our Non-financial Activities

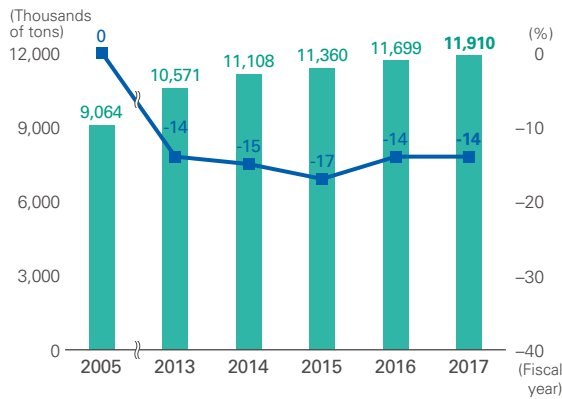


Selected for inclusion in the Dow Jones Sustainability Index (DJSI World and DJSI Asia Pacific)\*<sup>1</sup> for the fourth year in a row

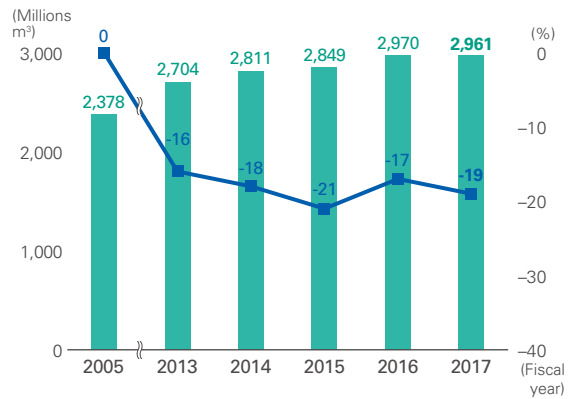
Selected as one of the World's Most Ethical Companies® for the 12th consecutive year (February 2018)

Received an A- evaluation from the Carbon Disclosure Project (CDP)\*<sup>2</sup> in the climate change, water, and forests categories

CO<sub>2</sub> Emissions across the Product Lifecycle\*<sup>3</sup>



Water Use across the Product Lifecycle\*<sup>4</sup>



■ CO<sub>2</sub> emissions (left) ■ Per unit (of sales) reduction rate (right)

■ Water use (left) ■ Per unit (of sales) reduction rate (right)

### External Evaluation

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
DJSI World and DJSI Asia Pacific		●	●					●	●	●	●
FTSE4Good		●	●	●	●	●	●	●	●	●	●
MSCI Global Sustainability				●	●	●	●	●	●	●	●
World's Most Ethical Companies®	●	●	●	●	●	●	●	●	●	●	●
CDP (climate change)		● Outstanding information disclosure	● Outstanding information disclosure	● Outstanding information disclosure	● Outstanding information disclosure		● Outstanding information disclosure	● Outstanding information disclosure	● Outstanding information disclosure	● A-	● A-
Euronext Vigeo Eiris World 120 Index								●	●		●
ETHIBEL	●	●	●	●	●	●	●	●	●	●	●
oekom	●	●	●	●	●	●	●	●	●	●	●

\*<sup>1</sup> DJSI World and DJSI Asia Pacific is an ESG index provided by the U.S.-based S&P Dow Jones Indices and RobecoSAM, which evaluates sustainability.  
 \*<sup>2</sup> CDP is an international NGO engaged in environmental fields such as climate change. CDP analyzes and evaluates information on environmental efforts by major global corporations, specifically pertaining to climate change from the perspective of corporate management risks brought about by climate change.  
 \*<sup>3</sup> "CO<sub>2</sub> emissions across the product lifecycle" is defined as the combined total for the amount of lifecycle emissions of individual products, excluding emissions during manufacturing and distribution, multiplied by their annual sales quantity, and the amount of emissions from the Group's manufacturing and distribution processes. However, this amount does not include emissions related to the use and disposal of chemical products.  
 \*<sup>4</sup> "Water use across the product lifecycle" is calculated by multiplying lifecycle water use of individual products, excluding use during manufacturing and distribution, by their annual sales quantity, and the amount from the Group's manufacturing and distribution process. This amount includes water used for procurement in regard to chemical products but does not include water used in the use and disposal of such products.  
 \*<sup>5</sup> EVA® is a registered trademark of Stern Stewart & Co.  
 \*<sup>6</sup> The Kao Group adopted IFRS in FY2016.  
 \*<sup>7</sup> 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)  
 \*<sup>8</sup> Net income per share (Japanese GAAP) / Basic earnings per share (IFRS)  
 \*<sup>9</sup> Excludes repurchase of shares of less than one trading unit  
 \*<sup>10</sup> 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."



## Results of Our Financial Activities

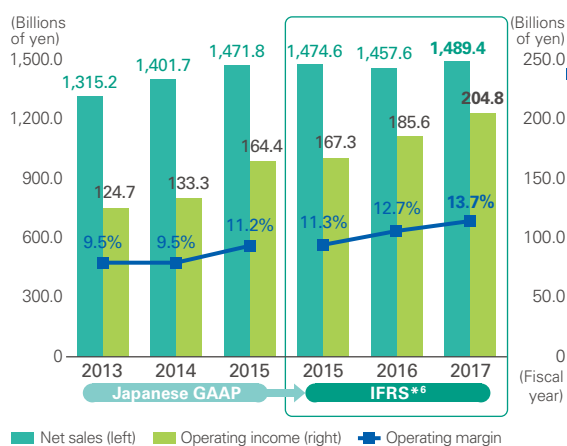


Profits grew for the eighth consecutive year and reached record highs for the fifth consecutive year, thereby reflecting our sustained growth

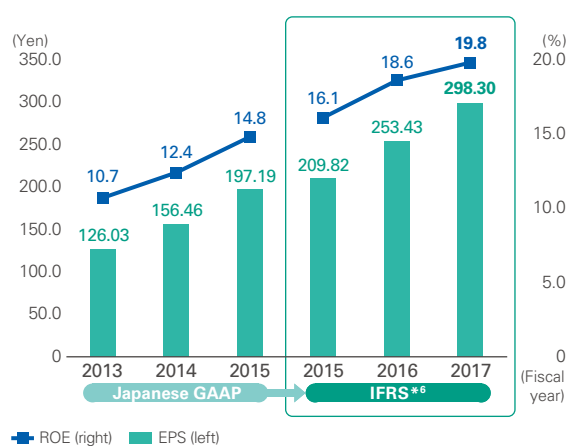
Actively offered returns to shareholders, reflecting dividend growth for the 28th consecutive year

Continued to grow EVA<sup>®</sup>\*5

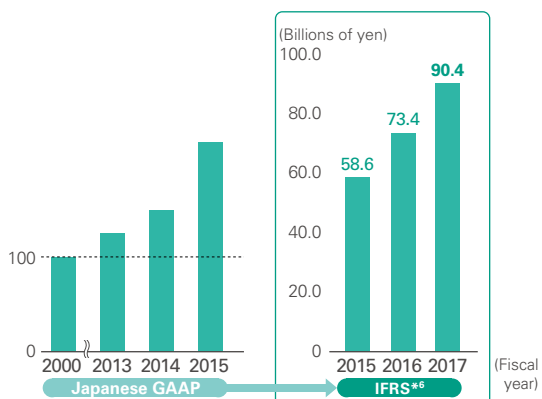
### Net Sales / Operating Income / Operating Margin



### ROE\*7 / EPS\*8

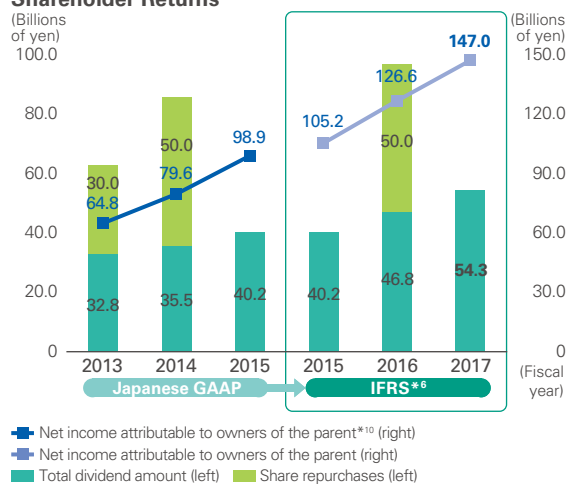


### EVA<sup>®</sup>

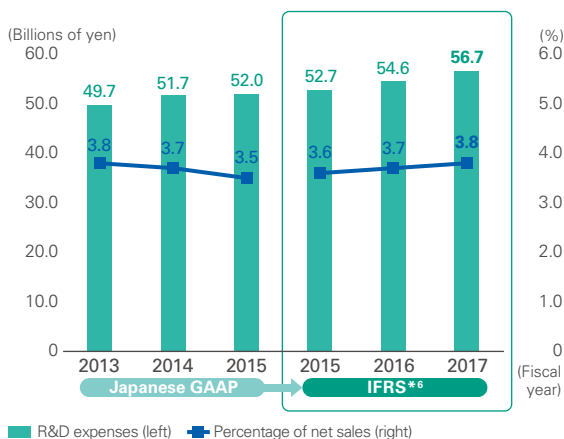


EVA<sup>®</sup> under Japanese GAAP is presented as an index with 100 representing the fiscal year ended March 31, 2000.

### Net Income Attributable to Owners of the Parent / Shareholder Returns\*9



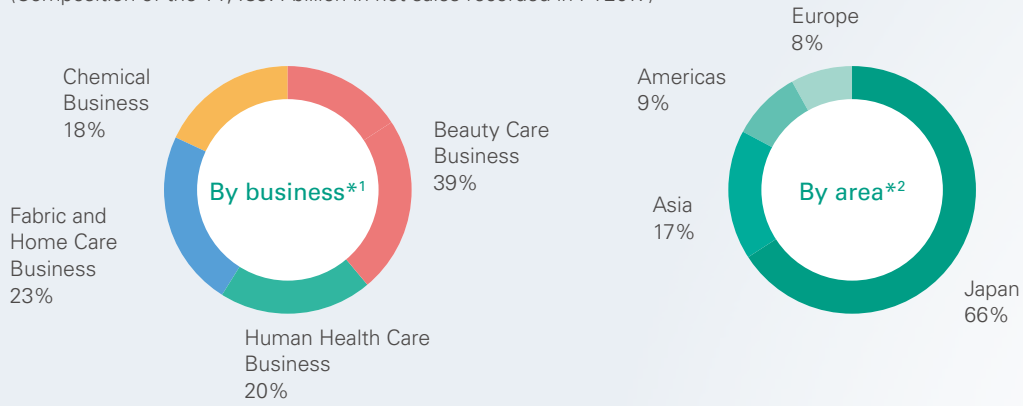
### R&D Expenses / R&D Expenses Ratio



# Kao's Business Composition and the Social Value We Offer

## Kao's Business Composition

(Composition of the ¥1,489.4 billion in net sales recorded in FY2017)



\*1 The composition of net sales is calculated using sales to external customers. This composition is listed using business segments reported through FY2017.

\*2 Categorized based on location of distributors

## The Social Value We Offer

### Businesses That Promote *Yoki-Monozukuri*\*4

#### Consumer Products Business

Cosmetics Business

Skin Care and Hair Care Business

Fabric and Home Care Business

Human Health Care Business

Kao's unique value creation brought about through synergies

Chemical Business

Chemical Business

### The Social Issues We Address and Contributions to the SDGs\*3

Three Key Areas	Nine Main Themes	Contributions to the SDGs
<b>Conservation</b>	<ul style="list-style-type: none"> <li>Resource efficiency</li> <li>Climate change</li> <li>Chemical substances</li> </ul>	
<b>Community</b>	<ul style="list-style-type: none"> <li>Cleanliness and hygiene</li> <li>Health and aging</li> <li>Gender equality</li> </ul>	
<b>Corporate Culture</b>	<ul style="list-style-type: none"> <li>Integrity</li> <li>Human rights</li> <li>Diversity and inclusion</li> </ul>	

\*3 Sustainable Development Goals adopted by the United Nations in 2015

\*4 Kao's business segments have been changed starting from FY2018.



— Consumers —

Creating unique experiences and touching the hearts of consumers through products filled with passion



— The Planet —

Sustainable environment, society, and local communities



Enriching lives, in harmony with nature

Output

Long-selling products that offer delight

- Environment
- Health
- Aging society
- Hygiene

Innovation



Other means of responding to the creation of a sustainable society



— Employees —

Corporate culture that brings out the best in each employee



— Shareholders —

Expansion of shareholder value through sustained increases in corporate value and EVA®

Kao's business comprises the Consumer Products Business, which is made up of four business fields—Cosmetics, Skin Care and Hair Care, Human Health Care, and Fabric and Home Care—and the Chemical Business\*4. Through the synergies generated between these two businesses Kao creates unique value and has expanded its operations to cover not only Japan but also regions around the world, including greater Asia, the Americas, and Europe. Kao earnestly incorporates social issues and needs related to Conservation, Communities, and Corporate Culture and makes every effort to fully leverage the assets it possesses. In doing so, Kao works together with passion to share joy with consumers and customers in our businesses.

## A Message to Our Stakeholders

### Transforming ourselves to drive change and generate significant growth

FY2017 marked the first year of Kao Group Mid-term Plan K20. The plan got off to a smooth start, thanks to the support of our stakeholders and the earnest efforts of our employees. Not only did we see profits increase for the eighth year in a row and reach record highs for the fifth, we also received the Grand Prix at the Corporate Value Improvement Awards and were selected as one of the World's Most Ethical Companies for the 12th consecutive year. In these ways, I believe the Kao Group began to steadily establish a strong presence.

K20 represents an important step for realizing our vision by 2030, and it is imperative that we begin to establish a foundation for doing so under this plan. Specifically, I believe we need to instill in ourselves a strong spirit of *Integrity* and a commitment to driving change. We will continue to emphasize the value of *Integrity*, which underpins the Kao Group's corporate philosophy, the Kao Way. For driving change, we will take steps to carry out the slogan of K20, "transforming ourselves to drive change."

As we move forward, it will be extremely important for us to ensure that our business activities connect strongly with the Environment, Society, and Governance (ESG), which need to be considered in order to contribute to a sustainable society. With a keen awareness of ESG, the Kao Group will aim to further enhance corporate value. We will also work to make our presence known throughout the world and become a company that our employees can be proud of.



Michitaka Sawada

Representative Director  
President and Chief Executive Officer





# An Interview with the President and CEO

**Michitaka Sawada**

Representative Director  
President and  
Chief Executive Officer



**Announced in 2017, Mid-term Plan K20 commenced in FY2017. What is your overall impression regarding the plan's first year?**

We have adopted three goals (commitments) under K20: a commitment to fostering a distinctive corporate image; a commitment to profitable growth, which means reaching a like-for-like net sales CAGR of 5% and an operating margin of 15%; and a commitment to returns to stakeholders. While we commenced K20 in FY2017 with the aim of making solid

progress toward honoring these commitments, I believe we still have a great deal of work to do. In the areas where we made good progress, we need to accelerate the path of progress and, for areas that did not go as planned, we must make prompt revisions and set ourselves back on the right track.

### K20 Goals—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 net sales CAGR of +5%, operating margin of 15%
  - Three 100 billion yen brands (*Merries* baby diapers, *Attack* laundry detergents, and *Bioré* skin care products)
- 3 **Commitment to returns to stakeholders**

#### Profitable Growth 2020 Strategy

- Thoroughly instill *Integrity*
- Make full use of Kao Group assets: Stage II
- Maximize Kao Group assets
- Build new assets

#### K20 Promotion Projects

- Innovate current procedures, approaches, and concepts
- Foster a distinctive corporate image
- Create the Kao Group's future
- Maintain the health of employees and their families
- Apply state-of-the-art technologies and infrastructure

## Comments on Non-financial Activities

As for our non-financial activities in FY2017, we received various awards that covered a broad range of areas, including corporate value improvement, corporate governance, corporate ethics, the promotion of women in the workplace, health management, product development, and environmental response. While there is still much more we can accomplish, I am very pleased that our efforts are being recognized from the perspective of ESG—three crucial elements in creating a sustainable

society. In particular, I would like us to implement and instill an awareness of Kirei Action, which represents activities that help us realize our corporate message of “enriching lives, in harmony with nature.” The word Kirei refers not only to cleanliness, beauty, and good health but also has a greater meaning that encompasses purity, honesty, and environmental conservation. We therefore want to play an integral role in offering Kirei to people and the planet.

## Comments on Financial Activities

Turning to our financial activities, we realized growth in profits for the eighth year in a row and reached record highs for the fifth, both being impressive accomplishments for the first year of K20. In addition, we made steady progress toward achieving our targets of like-for-like net sales CAGR of +5% and operating margin of 15%. In this regard, I believe we achieved solid results for the plan’s first year.

With that said, results differed greatly by business and by region, and this is a pressing issue. In terms of businesses, while baby diapers and skin care products

performed strongly, the performance of cosmetics, hair care products, and beverages (*Healthya*) did not live up to our expectations. Moreover, by region, we accomplished solid results in Asia and the Americas, but our Consumer Products Business faced difficult conditions in Europe. It is imperative that we make improvements in businesses and regions where we are dealing with hardships so that they may become pillars for future growth. Accordingly, from FY2018 and beyond, we are working to overcome issues under a new structure.

### Received the Grand Prix at the Fifth Corporate Value Improvement Awards

In January 2017, Kao received the Grand Prix at the Fifth Corporate Value Improvement Awards, hosted by Tokyo Stock Exchange, Inc. (TSE). All listed companies on the TSE are eligible for the award, which honors companies that 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 initiatives to improve corporate value. These include Kao’s continuous expansion of EVA<sup>®</sup>,\*1 which indicates “true profit” and gives consideration to the cost of invested capital. This expansion helped to realize long-term profit for all of the Group’s stakeholders, not just its shareholders.

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



### Selected as the Grand Prize Company for the 2017 Corporate Governance of the Year Prize<sup>®</sup>

In February 2018, Kao was selected as the Grand Prize Company for the 2017 Corporate Governance of the Year Prize<sup>®</sup>,\*2 hosted by the Japan Association of Corporate Directors (JACD). The Corporate Governance of the Year Prize is held by the JACD with the aim of supporting corporations that have achieved and maintained healthy medium-to-long-term growth through the implementation of corporate governance.

Kao was selected to receive this award in recognition of the efforts of its management to place importance on the shareholders and all stakeholders. These include having an outside director to serve as chairman of the Board of Directors and reducing the number of directors on the Board to seven, three of whom are outside directors, to stimulate active discussions and enhance the neutrality and independence of the Board.

\*2 2017 Corporate Governance of the Year Prize<sup>®</sup> is a registered trademark of the Japan Association of Corporate Directors.





An Interview with the President and CEO



**What kind of issues remain in accomplishing the goals of K20 and how are you approaching such issues?**

**Transforming Ourselves to Drive Change and Generate Significant Growth**

K20 is an important milestone toward achieving the Kao Group’s vision by 2030. During the four years of the plan, it is necessary for us to establish a foundation for realizing growth well into the future. This means that we must foster an awareness of dealing with change and construct models that allow us to become a driving force behind such change. First, fostering an awareness of dealing with change means gaining the ability to understand how we can change on our own initiative. To speak in extremes, we need to completely reject our current procedures, approaches, and concepts, and identify the areas we need to commit to and the areas we need to change. For areas we need to change, it is necessary for us to adopt methods that are completely different from what we have done thus far. While we actively made efforts to adopt such methods over the course of this year, we still have a great deal of work to do. By ascertaining the areas we have been able to change and how we have changed them, and by identifying which changes could have a potentially global impact, we will swiftly promote a raised awareness toward realizing the key slogan of K20, “transforming ourselves to drive change and generate significant growth.”

The next step for establishing a foundation for future growth is constructing models that allow us to become a driving force behind change. The first part of this process is demonstrating the willingness of management to realize such models. To this end, it is essential that we evolve the post-deflation growth model that we have previously established. Our post-deflation growth model differs entirely from a deflation growth model, in which investments are curtailed and made more efficient in order to generate profits. Rather, the model we have established involves utilizing assets effectively while actively carrying out investments to boost sales and realize profits. These profits are then used to conduct further investments to accelerate growth, thereby generating a substantial amount of earning power. A crucial element of this model is understanding ways in which we can use our assets effectively, because failure to do so would inhibit our ability to actively pursue investments. In an evolved version of our post-deflation growth model, we need to be able to leverage our assets to a greater extent than we ever have before. To do so, we need to make drastic

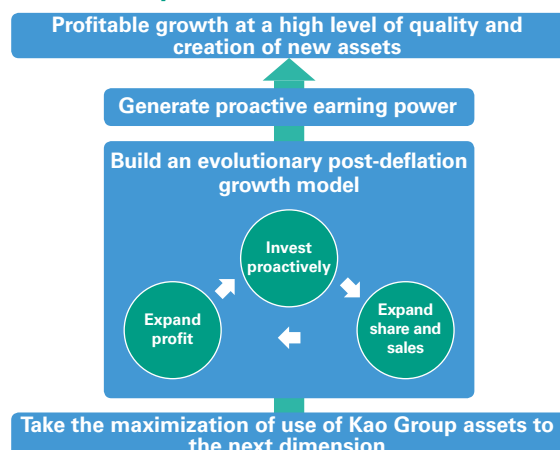
changes that depart from the procedures, approaches, and concepts we have employed to date. We also need to foster an awareness of EVA® among our employees.

To support this evolutionary post-deflation growth model, we need to establish a new model for product development that will allow us to drive change (for example, a model that can achieve mass customization), as well as a model for changing work-styles and a model that can respond to ESG-related issues. We will continue to make prompt efforts to create such models under the remainder of K20.

As part of these efforts, we implemented significant reforms to the structure of our Consumer Products Business in January 2018. These reforms were carried out with the aim of realizing profitable growth, including the revitalization of struggling businesses, by further increasing the speed of decision making and accelerating global expansion. We essentially eliminated the business unit structure, reorganizing into eight business groups, 10 businesses, and one project. We also carried out a significant reshuffling of those in management positions, promoting younger employees to positions with more responsibilities.

In addition, massive changes were implemented to Consumer Products Business’s sales system in Japan. Specifically, in order to further improve the Kao Group’s collective capabilities, expertise, and productivity, we reorganized into a function-specific system that centers on three major functions: marketing, sales, and business talk; beauty counseling; and in-store merchandising such as displays. In

**Evolutionary Post-deflation Growth Model**



particular, we established two new companies specializing in in-store beauty counseling (Sofina Beauty Counseling Co., Ltd. and Kanebo Beauty Counseling Co., Ltd.), and these companies will establish a management structure that aims to enhance counseling capabilities. They will also bolster activities geared toward continuously improving the attractiveness of Kao brands. The establishment of these two companies is part of our efforts to completely reform the Kao Group's cosmetics business and support the active role of our female employees through the promotion of workstyle reforms. Drawing on the foundation we have established over the years, we will work to revitalize our business and sales activities using new perspectives and approaches going forward.

As part of our efforts to advance our business, we announced our acquisition of Oribe Hair Care,



LLC (headquarters: New York City), a company that possesses super premium brands, in December 2017. Oribe Hair Care's brands hold a strong presence in the top-tier hair salon market and at specialty retailers in the United States. Through the acquisition of the company, we believe we can expand our business portfolio and enhance our customer base in the hair salon business.

## Becoming a Company with a Strong Presence among All Stakeholders

To realize sustainable growth for the Kao Group, we need to work together with all of our stakeholders, from our shareholders to our employees, customers, and society. We will therefore dedicate ourselves to fulfilling our commitment to returns to stakeholders, a target we adopted under K20. With these efforts, we aim to achieve dividend increases for the 29th consecutive year in FY2018. We will also strive to continuously improve the way our employees are compensated and provide support for not only their health but also the health of their

families. For our customers, we will endeavor to maximize win-win relationships. As for society, we will fulfill our role as a public institution with regard to paying taxes and providing employment while also further promoting non-financial activities. In these ways, we will honor our social responsibilities as a corporation.

The Kao Group will realize future growth while maintaining an emphasis on the value of *Integrity*. I would like to ask all of our stakeholders for their continued support and encouragement as we go forward.

### Results and Progress of K20 Promotion Projects

- Innovate current procedures, approaches, and concepts**

This project involves activities that take on a three-pronged approach involving methods for determining budgets, the structure of fixed costs, and innovation to product development, marketing, and sales. The project focuses on tackling issues that have already been made apparent. Moving forward, the project will hold discussions on marketing innovation that responds to digitization and product development that supports the "small mass" market.



- Foster a distinctive corporate image**

This project shaped the key message of "Kirei—Making Life Beautiful," which will be linked to Company-wide ESG activities. This in turn will help Kao establish its presence around the globe.



- Create the Kao group's future**

This project delivered business proposals for the future of Kao. The project also helped establish frameworks and systems to support individual ideas and the passion for creating Kao's future. Utilizing these frameworks and systems, Kao will work to continuously spur innovation on a Group-wide basis.



- Maintain the health of employees and their families**

This project promotes various health-related themes such as improving productivity, addressing metabolic syndrome, and supporting women's health. Employees involved in this project actively take part in forming plans for improving health. Going forward, Kao will analyze the details of data gathered through this project as it strives to make proposals for better health and adopt new approaches for health-related issues.



- Apply state-of-the-art technologies and infrastructure**

In 2017, this project focused on how AI can significantly enhance the efficiency of various work processes, working in collaboration with R&D divisions to conduct technology verification projects. The next step will examine ways to realize practical applications of AI.



# Progress and Road Map for Kao Group Mid-term Plan K20

Kao was able to meet all management and numerical targets adopted in K15 (FY2013 to FY2015), Kao's first publicly announced mid-term plan. Kao will further accelerate efforts to achieve a global presence by 2030. K20 represents an important milestone toward achieving our vision by 2030. To realize this medium-to-long-term vision, we must bring about unprecedented changes by resolving social issues and expanding our value creation domains.

## FY2013 to FY2015 Mid-term Plan K15

Kao's first publicly announced mid-term plan, sought to improve Kao's ability to formulate and execute detailed strategies

### Review of Numerical Targets and Performance

	Numerical targets	Results	Achievement ratio
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

## FY2017 to FY2020 Mid-term Plan K20\*1

Three commitments:

- 1 Commitment to fostering a distinctive corporate image**
  - Become a company that is always by the consumer's side
- 2 Commitment to profitable growth**
  - Continue to set new record highs for profits
  - Aim for like-for-like net sales CAGR of +5%
  - Reach 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**
  - Shareholders: Continuous cash dividend increases (40% payout ratio target)
  - Employees: Continuous improvement in compensation, benefits, and health support
  - Customers: Maximization of win-win relationships
  - Society: Advanced measures to address social issues

### Progress over K20's First Year

	FY2017 Results
Record highs for profits	Achieved record highs for profits for the fifth consecutive year
Sales growth	+2.2% year on year (like-for-like*2 +5.6%)
Increase in operating margin	Up 1.0 point year on year
Dividend increases	+16 yen year on year
Cultivation of 100 billion yen brands	Successfully cultivated three 100 billion yen brands
Improvements in employee compensation	Continuously improved remuneration levels and human resource systems
Improvements in health support	Expanded initiatives to promote health

Formulated detailed strategies and steadily achieved results

An important milestone toward achieving our vision by 2030

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

\*2 Like-for-like growth excludes the effects of IFRS 15 adoption, sales system revisions, and currency translations.

\*3 Ratio of net income to equity attributable to owners of the parent



## 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
- 3 A high level of returns to stakeholders

### Numerical Targets

2.5 trillion yen in net sales  
(1.0 trillion yen outside Japan)

17% operating margin

20% ROE\*<sup>3</sup>

► Over

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

The ability to realize sustainable increases in profits and dividends

# Financial and Capital Strategies



## Kao's Financial Foundation

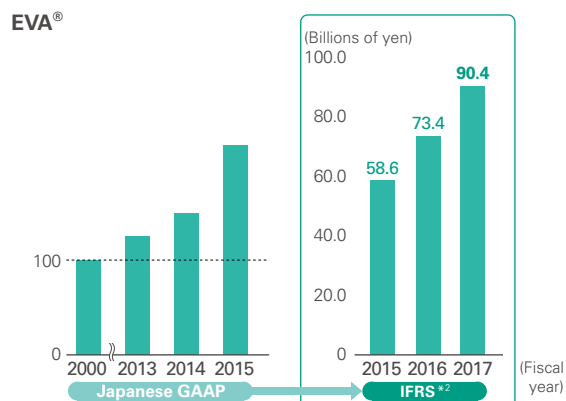
### Kao's Financial Foundation (EVA<sup>®</sup>\*1 Management)

Kao uses Economic Value Added (EVA<sup>®</sup>) as its main management indicator. EVA<sup>®</sup> reflects capital cost and is highly correlated with corporate value. Guided by EVA<sup>®</sup> 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 returns to stakeholders. Kao has increased its dividends for 28 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 also 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.

Kao places importance on resolving social issues through its business activities and on supporting a sustainable society through its social contribution activities. Specifically, Kao has selected the

environment, health, aging, and hygiene as the four areas in which it will strive to resolve social issues. Kao believes that making efforts toward ESG in these ways will further improve its corporate value and help it establish an even more robust financial foundation.



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

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

\*2 The Kao Group adopted IFRS in FY2016.

### Cash Flow Strategies to Realize the Targets of K20

To encourage the effective utilization of capital, Kao has been promoting rationalization efforts on a global scale, including the abolition of drafts and checks in 1985 and the subsequent centralization of payments and funds within the domestic Kao Group as well as the recent introduction of a global cash management system (netting, pooling, etc.). In addition, Kao has been striving to decrease working capital through such means as standardizing its payment terms on a global scale.

In regard to fund-raising, Kao holds an appropriate amount of interest-bearing debt in an effort to achieve optimal capital efficiency. Also, Kao aims to maintain a credit rating that would allow it to raise funds through

favorable conditions when making a large-scale investment. Meanwhile, Kao has been evaluated as having particularly outstanding policies that give consideration to the health of its employees, and these evaluations have allowed Kao to realize low-cost borrowing from the perspective of health management. In ways such as these, Kao is undertaking initiatives with a focus on ESG.

Under Mid-term Plan K20, Kao is aiming for like-for-like net sales CAGR of +5% and operating margin of 15%. In addition, Kao intends to continue to increase its cash flow from operating activities, which came to 185.8 billion in FY2017, at a pace that exceeds the rate of growth in net sales.

## Use of Cash Flows and Returns to Shareholders

Kao will effectively utilize cash flows from operating activities, which are generated steadily from the perspective of EVA<sup>®</sup>, in the following ways as it aims for further growth.

- Investments for future growth (capital expenditures, M&A, etc.)
- Steady and continuous cash dividends (40% payout ratio target)
- Share repurchases and early repayment of interest-bearing debt including borrowings

### Capital Expenditures and M&A

At each production base in Japan and overseas, Kao has actively carried out capital expenditures on a continuous basis. With a focus on the period covered by K20 and beyond, Kao will continue to promote capital expenditures geared toward future growth both inside and outside Japan. In addition, through M&A activities Kao aims to create new assets primarily in its B2B businesses, such as the Chemical Business and the salon business, by acquiring superior technologies and generating synergies with its own technologies.

Kao draws on the perspective of EVA<sup>®</sup> management when making decisions regarding capital expenditures and M&A. During the course of K20, Kao aims to improve EVA<sup>®</sup> by pursuing investments in projects and businesses in which net operating profit after taxes exceeds capital costs on a cumulative basis. By leveraging these investments to realize profitable growth over the medium-to-long-term, Kao will take steps to enhance corporate value through the continuous improvement of EVA<sup>®</sup>.

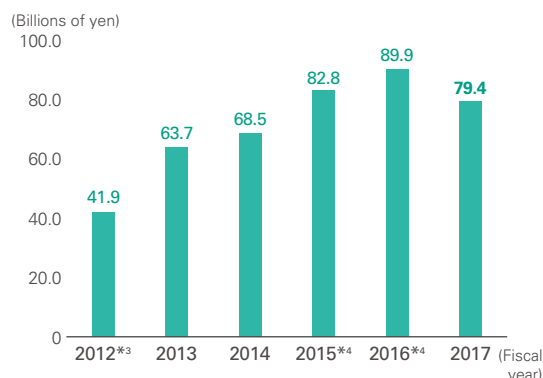
### Dividends and Share Repurchases

To achieve profitable growth, Kao secures an appropriate amount of retained earnings in order to carry out capital expenditures and M&A from a medium-to-long-term management perspective. Kao also places emphasis on stable and continuous dividend increases and, in FY2017, realized these increases for the 28th consecutive year. In recent years, Kao has been generating cash flows from operating activities at a level higher than ever before and has reflected that growth by significantly raising cash dividends per share.

In addition, Kao flexibly pursues share repurchases and cancellations in consideration of improving capital efficiency. As of FY2017, Kao has repurchased 168 million shares totaling 493.8 billion yen.

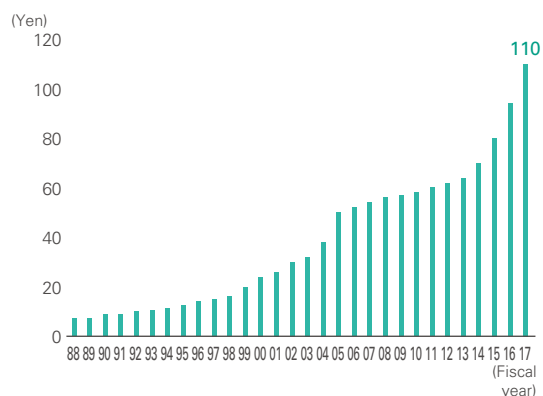
As a result of improving EVA<sup>®</sup> through high levels of profitability and consistent returns to stakeholders, Kao's ROE has risen to nearly 20%. Kao has made a commitment to returns to stakeholders under its Mid-term Plan K20 and will continue to strive for dividend increases to fulfill this commitment going forward.

### Trend in Capital Expenditures

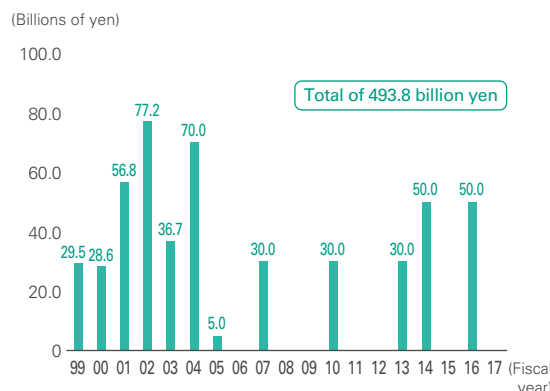


\*3 Kao changed its fiscal year end for FY2012 from March 31 to December 31.  
 \*4 The Kao Group adopted IFRS in FY2016. Figures for the fiscal year ended December 31, 2015 have been recalculated based on IFRS.

### Performance of Dividends per Share



### Status of Share Repurchases





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Special Feature 1

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# Expanding into Asia and around the Globe

To become a company with a global presence, which is one of the goals in our medium-to-long-term vision, we must significantly expand our current business domains to bring about change.

In Special Feature 1, we introduce the wide variety of initiatives Kao is taking to expand its business domains beyond Japan to encompass Asia and the rest of the world.



## Rapid Expansion of Merries in Asia

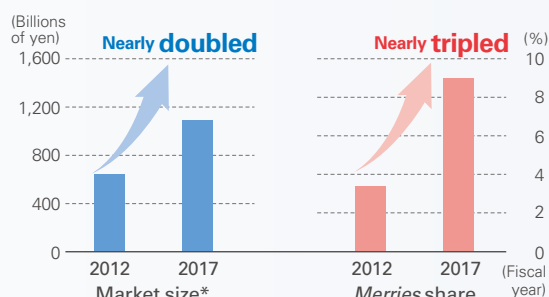
### 1 Asian Markets and the Expansion of Merries

The outlook for the global economic environment remains uncertain due to such factors as the emergence of protectionist trends and the frequent occurrence of terrorist attacks. In addition, the economic growth rate in Asian countries has been slowing down in recent years. Nevertheless, global markets have continued to enjoy relatively high levels of growth, and the use of diapers has become more widespread as the daily lives of people become more enriched.

Furthermore, there has been a heightened demand for high-value-added products. As a result, the market size for baby diapers in the eight countries and regions in Asia where Kao has physical locations has nearly doubled between 2012 and 2017. This means that the baby diaper market in Asia has become almost five times larger than that of Japan. Also, the number of visitors from Asian countries to Japan has been rising year by year, and with this increase, Japanese products and services have received high levels of praise from these visitors. Through word of mouth, the attractiveness of Japanese products and services has become

well-known in countries throughout the world. Amid the expansion of cross-border e-commerce businesses and the active flow of people, goods, and information across the world, Merries has enjoyed a favorable reputation thanks to its high quality and the fact that it is gentle on the skin. Supported by this reputation, the Merries brand has grown significantly in Asian countries, starting with China and Indonesia, nearly tripling its market share over the past five years.

**Market for Baby Diapers in Asia (Eight Countries and Regions with Physical Locations)**



\* Referenced Euromonitor International's Global Economies and Consumers in 2017

### 2 Highly Praised Technologies Unique to Japan and Kao

Since its creation in 1983, the Merries brand has continued to pursue the highest levels of quality and comfort in its efforts to put a smile on babies' faces. This pursuit has been grounded in the belief that smiling is the way for babies to communicate that they are comfortable. Guided by this belief, we have continued to conduct research on baby skin together with dermatologists and pediatricians. For the raw materials used to produce Merries, we only use materials that have been certified as safe for use on baby skin. Additionally, before the diapers reach the hands of consumers, we conduct multiple tests to confirm product safety, quality, and acceptance. We make painstaking efforts to ensure safety and peace of mind, showcasing the dedication of Japanese craftsmanship by taking every step we can to make sure the diapers are gentle on the baby's skin. In the production process, we implement

thorough quality control so that we are able to steadily deliver high-quality diapers to our consumers. In each country and region of operation in Asia, we conduct investigations to determine diaper usage customs and the kind of qualities consumers are looking for in a diaper. For example, our Merries Pants Good Skin, which are sold in hot and humid Indonesia, provide superior breathability, which makes them extremely popular with Indonesian consumers as it ensures that the skin is always dry and smooth. These diapers have received certification verifying that they have been tested and approved by dermatologists via PERDOSKI, the Indonesian Society for Dermatology and Venereology.



### 3 Aspiration for Further Expansion

To take the next big leap going forward, we will continue to implement Yoki-Monozukuri not only for Japan-made diapers but also for diapers produced in China, Taiwan, and Indonesia, strictly adhering to the principles of Consumer Driven and Genba-ism so that these products reflect the Kao Way. In doing so, we will offer high-quality diapers that are gentle on the skin of babies across Asia. In addition, we will expand new sales channels through efforts centered on e-commerce, which is showing remarkable growth in Asia. In countries

where we currently have no physical locations, we will pursue collaborations with business partners such as local distributors, global logistics companies, and Japanese logistics companies. In light of the success of the Merries brand in Asia, some of our other brands such as Laurier, Attack, and Bioré, are receiving high praise in the region as well. Going forward, we will continue to contribute to enriched lifestyles of consumers around the world through the provision of products that cater to the needs of local consumers.

## Special Feature 1

### Expanding into Asia and around the Globe

## Future Business Developments in the Americas and Europe

### 1 Current Business Situation and Issues

In the beauty care market in the Americas and Europe, it has become extremely easy to access information due to the rapid expansion of e-commerce businesses and the widespread use of social media. As a result, consumer needs are becoming more diverse, segmented, and complex. Within this kind of market, there has been a heightened trend toward personalization, in which consumers go to great lengths to find the products that best suit their needs.

In the skin care market, products made from natural ingredients have rapidly gained popularity due to a heightened interest in naturally derived compounds and a raised awareness of skin health. Demand for products derived from natural ingredients has extended into facial washes, face masks, and beauty lotions. There is now a need to develop products that can offer solutions that address concerns relating to skin health.

In the hair care market, there has been an increase in premium brands for shampoos and



Goldwell Kerasilk brand for hair salons

conditioners, and products made from natural ingredients have been gaining in popularity, as have hair color products and hair care products. Against this backdrop, consumers are now more concerned with avoiding hair damage and maintaining hair health. This has driven demand for the development of high-value-added products with unique features that can refine and enhance hair beauty.

### 2 Aspiration for Further Expansion

Turning to skin care products, our *Jergens* brand hand and body lotions have captured the No. 1 share in the North American market. To further solidify this leading position, we will work to expand our product lineup while placing importance on improving skin health and alleviating skin disorders. For *Bioré*, we will continue to focus on pore cleansers that target young adults as we take steps to expand the regions where we offer *Bioré* brand products.

As for our hair care products, we aim to acquire a unique position in markets in the Americas and Europe by specializing in a premium brand strategy that leverages the *John Frieda* brand. In the salon business, we have strengthened our product lineup in higher price ranges through the acquisition of Oribe Hair Care, LLC, which we announced publicly in 2017. Oribe Hair Care is a U.S.-based company known around the world for its high-quality hair care





brands. While offering an optimal product portfolio that caters to the needs of individual consumers, we will take steps to build a win-win relationship with hair salons, the customers of our salon business, by helping them expand their business.

For our *Molton Brown* brand of luxury products, we will implement highly captivating product

campaigns each season and roll out the brand in a wide range of stores, including duty-free shops at airports. We will also enhance gift services and increase the number of products geared toward men. Through these means, we will further strengthen the brand power of *Molton Brown*.



John Frieda hair care brand



Orbe super premium brand for hair salons

## Future Approach in New Countries and Regions

Currently, we export products produced in Japan and Asia to 14 countries and regions around the world, while exporting products produced in Europe and the Americas to 50 countries and regions. In this way, we are expanding our business via our local distributors.

Based on the different cultures and lifestyles of people around the world, we have organized our approach to new countries and regions by area, specifically South Asia, the Middle East and North Africa, Sub-Saharan Africa, and Central and South America. By establishing a list of priorities for each area, we will move forward with our entry into new markets.

When making our entry into these markets, in

particular the markets for premium brands, we will pay close attention to the consumer needs of each country as well as the competitive edge and novelty appeal of our products. In addition, we will select the optimal product category, brand, and sales channels for each country as we roll out high-value-added products produced primarily in Japan, Europe, and the Americas.

Specifically, we will leverage e-commerce as a growth driver, targeting millennials\* via social media, customer relationship management, and other forms of digital marketing with the aim of realizing business expansion.

\* People who became adults during the 2000s



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Special Feature 2

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# Taking on the Challenge of Driving Change

To strive for the wholehearted satisfaction and enrichment of the lives of people globally, Kao has embarked on a mission to contribute to the sustainability of the world.

In Special Feature 2, we introduce Kao's innovative product development that helps contribute to the resolution of various social issues.



## Consumer Products Business

## Development of New Environmentally Conscious, Easy-to-use Packaging

Since 1991, we have been proposing the use of refill packaging. These proposals started with low-to-medium viscosity dishwashing detergent packaging and, by around 1996, grew to include high-viscosity body washes and shampoos. These efforts illustrate our history of repeatedly improving the user-friendliness of our product refills. However, even with the repeated improvements we have made, we continued to receive feedback from a large number of consumers expressing concern with our conventional refill products, for which users had to tear the edge on the upper-right corner and pour out the contents. These concerns were mainly centered on the difficulty consumers had with trying to smoothly empty the entire contents of the packaging. Additionally, over 90% of consumers surveyed stated they were unsatisfied with our refill packaging for high-viscosity liquids. In light of this feedback, we made comprehensive reforms starting in 2011, not constraining ourselves to the previous approach we have taken. After four years of efforts, we developed *Raku-raku Eco Pack Refill*.

With *Raku-raku Eco Pack Refill*, we placed a gusset on the top and bottom of the film of the refill, giving it a bottle-like shape. We also placed a cap on the product so that it is easy to open and can be snugly inserted upside down on the mouth of the original container, allowing for smooth refills. Film is used in consideration of the environment, reducing



Raku-raku Eco Pack Refill



Smart Holder

the product's surface area by 35% and making the product nearly 18% thinner. The product also uses approximately half the amount of plastic as conventional refill products. In addition, *Raku-raku Eco Pack Refill* successfully reduces the CO<sub>2</sub> emissions generated throughout the manufacturing, use, and disposal stages by about 3% compared with previous refill packaging.

Also, in 2017 we developed *Smart Holder*, which allows *Raku-raku Eco Pack Refill* to be used simply by removing the product's cap and inserting a pump into it. This product is only available online. With a simple design that makes it difficult for sludgy liquids to build up on the bottom, *Smart Holder* is stain-resistant and easy to clean. It also lets users fully empty the contents of *Raku-raku Eco Pack Refill* without stress. Not only does *Smart Holder* make refilling easier, it also helps significantly reduce the volume of plastic used. As a result, *Smart Holder* has received high praise from eco-conscious consumers.

## Continuous Evolution of Foam Design (New Surfactant Control Technology)

We have sold over 1 billion products in the *CuCute* dishwashing detergent series between its launch in April 2004 and December 2017, making *CuCute* one of Kao's long-selling products. In a survey we conducted on housework, approximately 40% of stay-at-home spouses stated that they disliked washing dishes, and based on these answers we began to undertake efforts to renew the *CuCute* series under the concept of making dishwashing more fun. After six years of research, we carried out a renewal of the series in 2014.

We created a hybrid wash formula by leveraging Kao's unique formulation technologies to combine two kinds of surfactants with different qualities. Using this method, we boosted the cleansing power of *CuCute* against stuck-on grease by nearly 1.4 times compared with conventional products. Additionally, thanks to the fact that its foam rinses off quickly, *CuCute* helps reduce the amount of water used to wash dishes by approximately 20% compared with conventional dishwashing detergents.

For *CuCute CLEAR Foam Spray*, launched in 2016, we used Kao's unique "penetrative cleansing technology" to add cleansing components that can penetrate deep into stuck-on grease.

By spraying *CuCute CLEAR Foam Spray* directly onto a dish and letting it sit for approximately one minute, stains can be removed without scrubbing with a sponge. When washing dishes, it can take a great deal of time to remove stains from difficult-to-reach areas, and many people find this to be troublesome. However, when used in combination with ordinary detergents, *CuCute CLEAR Foam Spray* offers a way to significantly reduce the amount of work it takes to clean difficult-to-reach areas. The product has made dishwashing a more enjoyable experience and extremely popular with consumers who need to balance work with domestic chores.



CuCute CLEAR Foam Spray



## Special Feature 2

### Taking on the Challenge of Driving Change

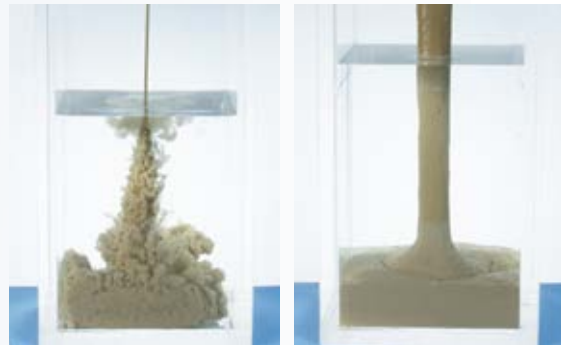
#### Chemical Business

## Advanced Technologies That Support Social Infrastructure

In May 2017, Kao received the Technology Special Award at the 49th Technology Awards, hosted by the Japan Chemical Industry Association, in recognition of its development of the high-performance thickener *Visco Top*. This award is given to honor organizations that have created original products and technologies that contribute to the progression of chemical technologies as a whole.

In Japan, various kinds of construction work are being carried out nationwide, including skyscraper and highway, tunnel, seawall, and port construction. When carrying out construction alongside rivers and oceans, it is extremely important to take steps to prevent water pollution. *Visco Top*, the winner of the Technology Special Award, is a high-performance thickener that leverages the viscoelasticity offered by high-order structures\*1 (threadlike micelle\*2). The addition of *Visco Top* to concrete prevents the separation of substances that occurs when concrete comes into contact with water. As such, the product helps make construction more reliable and significantly reduces construction periods even for civil engineering work at difficult sites that are adversely affected by watersides or spring water, such as reclaimed ground and tunnels.

Using concrete slurries made up of water and inorganic powders, we developed technology that freely controls slurry rheology and successfully created slurries with higher fluidity, increased resistance to material separation, and superior injectability. By preventing material dilution, this enhanced slurry is



Without the addition of *Visco Top*

With the addition of *Visco Top*

able to improve the reliability of various kinds of concrete construction, injection, and repair work that is conducted on ground formations exposed to high amounts of seawater, underground water, or spring water. Accordingly, the slurry improves structure quality and significantly reduces construction time. We have taken steps to demonstrate the high application value of this technology, which led to our receipt of the Technology Special Award.

*Visco Top* is expected to be a chemical agent that can make significant contributions in the future through a wide range of uses, including preserving, stabilizing, and repairing social overhead capital (infrastructure) as well as enhancing earthquake resistance of this capital.

\*1 Structures with a systematic arrangement of two kinds of surfactants, one that interacts easily with oil and one that interacts easily with water, spread out across three dimensions

\*2 Long threadlike structures with an internal concentration of surfactant sections that interact easily with oil when submerged in water

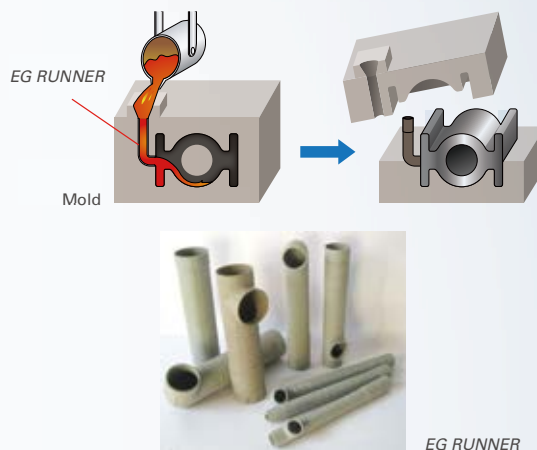


## Development of Casting Runner Channels That Are People- and Eco-friendly

In June 2017, Kao received the Ministry of Economy, Trade and Industry Award at the 16th Green Sustainable Chemistry (GSC) Awards, hosted by the Japan Association for Chemical Innovation. The award was received in recognition of our development of paper-based casting runner channels. The GSC Awards are presented every year to organizations that contribute to the promotion of green, sustainable chemistry (chemistry that is people- and eco-friendly and supports the development of a sustainable society). Within these awards, the Ministry of Economy, Trade and Industry Award honors organizations that have a proven track record of contributing to the development of industrial technologies.

Casting runner channels are tubes used for the pour-in and flow of molten metal, which reaches temperatures of up to 1,400°C. Various efforts have been made in the manufacture of cast metal to enhance quality and productivity and improve the manufacturing process environment. Recently, the need for reducing industrial waste from an eco-friendly perspective has risen significantly. Conventional casting runner channels made of ceramic have a number of issues, including their heaviness and the waste residue they create after use, which impedes the recycling process for molding sands.

Our paper-based casting runner channel (*EG RUNNER*) utilizes a hybrid pulp mold that uses recycled pulp. The product was developed under an original Kao concept and possesses superior



heat-resistant properties and other features. Some major advantages of *EG RUNNER* are that it is extremely light, being approximately one-tenth of the weight of conventional ceramic tubes, and that it simplifies cutting and assembly processes as it is made of primarily paper pulp. In addition, compared with ceramic tubes, *EG RUNNER* consumes about one-eighth of the amount of energy during the manufacturing process, emits nearly one-fifth of the amount of CO<sub>2</sub> from manufacture to disposal, and generates roughly one-sixteenth of the amount of waste material. In these ways, *EG RUNNER* significantly reduces the environmental footprint. In Japan, nearly all press molds used for automobiles utilize *EG RUNNER*. In 2015, we established a production base for *EG RUNNER* in China, reflecting our efforts to increase demand for the product across the globe.





# Sustainability Activities



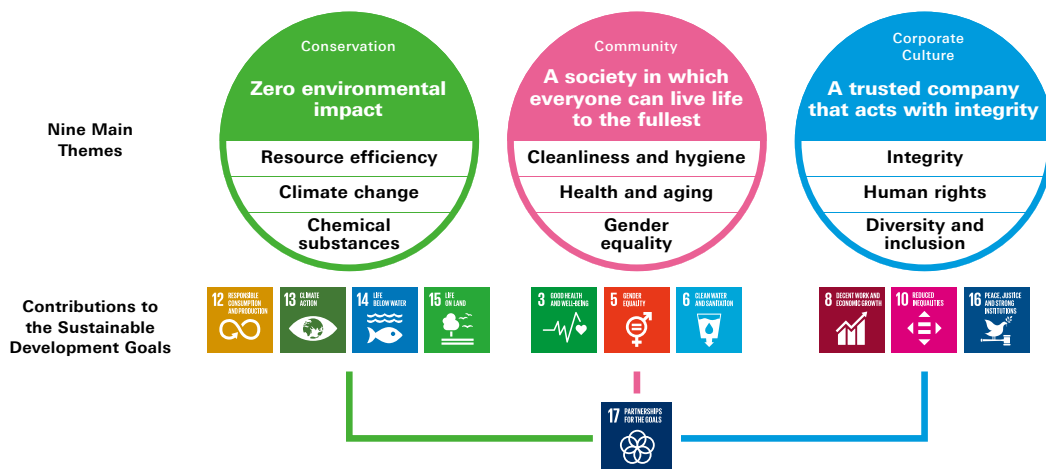
## Kao Sustainability Statement and Contributions to the SDGs

Kao has determined guiding principles for contributing to the sustainability of the world and nine main themes, as described below. Out of the 17 Sustainable Development Goals (SDGs), these main themes contribute to achieving the following goals.

### Kao Sustainability Statement

Kao's 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.

Now and in the future, we aim to be an integral part of people's lives by creating, through our corporate activities, a world in which all people can live life to the fullest. We will contribute to a sustainable society by working to solve social issues together with various stakeholders.





## To a Brighter Future, for You and the World

Kao's corporate philosophy, 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*.

Guided by this mission, Kao is combining its employees' passion and power to provide innovative products and services in domains that contribute to cleanliness, beauty and health, as well as in industrial products that contribute to the development of various industries. At the same time, Kao employees are actively making efforts to get involved in local communities. In these ways, Kao is working to resolve social issues through its overall corporate activities.

In 2013, we formulated the Kao Sustainability Statement and specified "Conservation," "Community," and "Corporate Culture" as the three key areas on which we focus our efforts toward contributing to society through our corporate activities.

As for the specific social issues that we will work to resolve, we recognize the Sustainable Development Goals (SDGs), which were adopted by the UN General Assembly in 2015, as goals established to resolve the issues facing the global community. Based on this recognition, we have established main themes for our initiatives in reflection of a broad range of perspectives, including the expectations of our stakeholders as well as our medium-to-long-term vision.

## Future Initiatives

This section introduces exemplary efforts Kao is making under two of the nine main themes it established for its sustainability activities.

For resource efficiency, Kao is promoting the effective use of resources through its forward-thinking

creation of cleaning products and packaging that can contribute to a recycling-based society. For cleanliness and hygiene, Kao is pursuing efforts to improve the level of cleanliness and hygiene for people around the world, particularly in Asia.

### Resource efficiency

#### Future Cleaning, Future Packaging



As a manufacturer that uses the planet's resources to create products making life more comfortable, Kao is working to reduce the amount of fossil resources it uses and promoting the effective use of renewable resources. In doing so, Kao is engaging in various efforts to conserve the planet's limited amount of resources so that future generations can live a comfortable life.

▶ P34

### Cleanliness and hygiene

#### Improving the Level of Cleanliness and Hygiene



Kao's contributions to cleanliness and hygiene go back to *Kao Sekken* (Kao soap), which represents the starting point for Kao as a whole. By closely observing the lives of people around the world, Kao provides products and services that cater to local cultures and communities. At the same time, Kao supports the healthy everyday lives of people through awareness-raising activities and the provision of various information aimed at establishing hygiene habits.

▶ P36

Sustainability Activities

# Future Cleaning, Future Packaging



## What Kao Aims to Do

### Aiming for Zero Environmental Impact

Kao has provided a great number of advanced products that have contributed to cleanliness and hygiene in daily lives of people around the world. Giving consideration to the environmental impact of these products, Kao has worked to improve the global environment by considering the impacts of the product lifecycle. Going forward, Kao will strive

to further reduce its environmental impact, with the ultimate goal of developing products and technologies with zero environmental impact and then promoting their widespread use. In doing so, Kao will contribute to the enriched lifestyles of people around the world well into the future.

## Approach

### Future Cleaning and Future Packaging

Through products and services that effectively make use of renewable resources, starting with biomass, we are working to offer a brighter future to the planet and the people who live on it.

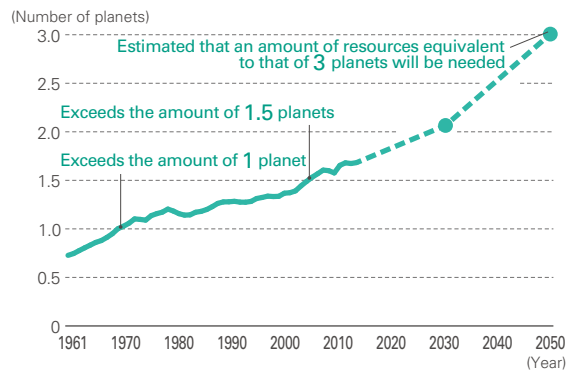
#### Main Efforts

- Future cleaning: Cleaning that effectively uses a wide range of renewable resources and that leads to more comfortable lifestyles
- Future packaging: Product packaging that uses significantly less plastic, can be recycled, and can be used easily by everyone

## Current Global Conditions

### Living on One Planet

It is said that under current consumption habits, humankind is already using 1.5 times the amount of sustainable resources available on earth. This means that, within their daily lives, humans have been destroying nearly half of the earth's natural environment. As such, current lifestyle habits cannot be sustained into the future. We are now seeing the limitations of a society of mass consumption that has continued since the industrial revolution. For living within the means of one planet, the efficient use of resources is essential.



Source: Global Footprint Network

## Value Kao Offers

### 1. Developing Products Made from Biomass

In Malaysia and the Philippines, Kao produces high-quality, fatty alcohols using primarily natural fats and oils such as palm kernel oil and coconut oil.

Using these alcohols as raw materials, we developed new cleansing agents for laundry detergent that rinses away quickly without getting stuck to the fabric of clothes. With these agents, we launched *Attack Neo*, an ultra-concentrated liquid laundry detergent that requires only one rinse cycle as opposed to the two required by conventional detergents. The introduction of this product made detergents with a single-rinse option popular in Japan. We now offer this product in five countries and



regions outside of Japan as well, including China and Singapore.

### 2. Reducing the Amount of Plastic of Refill Products

Kao makes use of a wide range of plastic packaging. While this packaging boasts such advantages as being inexpensive and sturdy, it also has several disadvantages such as being bulky and nondegradable. To reduce the amount of plastic used for our containers, in 1991 we introduced refill products in Japan that use mainly film containers. We now offer these products in seven other countries and regions in Asia. In Japan, we have switched over 87% of our plastic containers to film-based containers, thereby helping to significantly reduce the amount of household waste.



## Future Initiatives

### Achieving Zero Environmental Impact through the Effective Use of Resources

By developing cleansing agents with new functions and thoroughly researching surface science to control the surface of stains, we will continue to develop and provide products with less environmental impact.

In addition, we will increase our offering of refill products that make the refilling process easier as we work to further reduce plastic usage and waste in households. We will also take on the challenge of creating a recycle-based society through activities that promote the recycling of used containers.

Based on our Essential Research, we will act as a global leader in the development and proposal of products with zero environmental impact that leverage the seeds of our creativity. At the same time, we will work together with like-minded organizations with the



aim of realizing comfortable lifestyles with the limited amount of resources on earth.

Sustainability Activities

# Improving the Level of Cleanliness and Hygiene



## What Kao Aims to Do

### Supporting Healthy Lifestyles for People around the World

In 1890, Kao founder Tomiro Nagase launched *Kao Sekken* with the desire to contribute to cleanliness and hygiene in daily life. At that time in Japan, the only soaps available were either high-priced imported soaps or moderately priced Japanese-made soaps of inferior quality. With the launch of *Kao Sekken*, people in Japan were able to enjoy high-quality, Japanese-made soap at a price that

was easy to afford.

Since the introduction of *Kao Sekken*, we have been contributing to cleanliness and hygiene in daily life of people around the world. Going forward, we will strive to help people in the world to live such life. Maintaining physical hygiene and cleanly living spaces helps prevent illness, which in turn leads to better physical and mental health.

## Approach

### Making Contributions through Our Products with Local Communities

To improve the level of cleanliness and hygiene in the Asian region, Kao is providing products and services that contribute to cleanliness and hygiene in daily life. At the same time, Kao is working together with local communities to conduct awareness-raising activities aimed at establishing hygiene habits and to provide support for improvements to overall hygiene conditions.

#### Main Efforts

- Products that contribute to cleanliness and hygiene: Providing products that contribute to cleanliness and hygiene in daily life and can be used easily by anyone
- Improvements to hygiene conditions through collaboration with local communities: Collaborating with local communities to provide information and improve hygiene conditions in accordance with the circumstances of each region

## Current Global Conditions

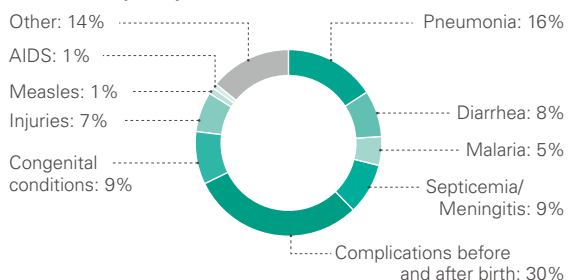
### Helping to Save Lives through Proper Hygiene Habits

In 2016, the number of children under five years old who died was 5.6 million. While that number has declined from the number in 1990, which was 12.6 million, it still means that 15,000 children died per day.

While a major reason for these child deaths was complications that occurred shortly before or after giving birth, such as children not having access to the help of trained health professionals shortly after being born, infectious diseases such as pneumonia, diarrhea, and malaria were also a major factor. In particular, pneumonia and diarrhea accounted for 16% and 8% of deaths, respectively, and both of

these diseases can be prevented if proper hygiene habits are learned.

#### Causes of Deaths around the Globe for Children under Five (2016)



Source: *Levels and Trends in Child Mortality 2017* (UNICEF)



Value Kao Offers

1. Changing Lifestyles through Innovative Products and Contributing to Improved Hygiene

Since the launch of *Kao Sekken*, we have been contributing to cleanliness and hygiene in daily life of people in Japan and overseas. *Kao Shampoo*, which was released in 1932, was a product that significantly changed the way Japanese people washed their hair because it allowed even women that wore their hair up to wash their hair easily. With our *Merit* shampoo, launched in 1970, we provided a solution for issues related to dandruff and an itchy scalp.

Through the development of cleansing agents that are gentle on the skin, *Bioré Facial Foam*, which we released in 1980, offered a new kind of face wash that did not leave the skin feeling tense after washing.



Kao Shampoo



Merit

2. Implementing Awareness-raising Activities to Establish Hygiene Habits

Washing your hands is one effective method for preventing infectious diseases, but there are many children in the world who do not know the proper way to do so. Since 2009, our employees have been visiting elementary schools in Japan to conduct handwashing lessons, where children can learn proper handwashing techniques while having fun. Since 2011, we have been expanding these kinds of activities in other Asian countries and regions, such as Taiwan, Thailand, and Indonesia.



Future Initiatives

Working to Establish Hygiene Habits in the Asian Region

While hygiene conditions have improved around the world, a great deal of issues still remain. In Asia, we will take steps to further improve the level of cleanliness and hygiene going forward. In addition to providing products that offer cleanliness and hygiene, we are deepening our collaboration with a broad range of stakeholders to step up our efforts to promote awareness-raising activities that establish hygiene habits and provide relevant information. Working to form friendly relationships with members of local communities, we will contribute to the resolution of issues related to cleanliness and hygiene.



## Dialogue



### Michitaka Sawada

Representative Director  
President and Chief Executive Officer

### Chiaki Mukai

Corporate Executive Fellow  
Vice President of the Tokyo University of  
Science Specially Appointed Counselor of  
Japan Aerospace Exploration Agency  
Astronaut, Doctor of Medical Science

### Yoshihiro Hasebe

Director, Senior Managing Executive Officer  
Senior Vice President,  
Research and Development  
Manager of Corporate Function Division

# Offering Unique Kao Value Propositions

Amid dizzying changes in the global business environment, what kind of value propositions does the Kao Group need to offer? With Yoshihiro Hasebe, senior managing executive officer and senior vice president of research and development, acting as facilitator, we held a dialogue with Chiaki Mukai, who was appointed as a corporate executive fellow in 2016, and Michitaka Sawada, Kao's president and chief executive officer.

## Society's Present Needs

**Hasebe** What do companies need to do to benefit society?

**Mukai** What particularly interests me is the creation of environments where people can spend time in safety, security, and comfort. I worked as an astronaut for over 30 years, and in outer space, you are essentially cut off from all lifelines. This experience has given me a desire to see how Japanese technologies can be used to provide people in areas cut off from lifelines with a space where they can not only preserve their life but also live comfortably. By pursuing industry-academic collaboration, technologies can be created that will be extremely useful in the daily lives of people.

I believe that with its matrix management structure, Kao can lead this kind of collaboration.

**Sawada** For our matrix management in R&D, we promote mutual collaboration between our fundamental research and our product development research, providing a framework where people with different goals and responsibilities cooperate with each other based on a mutual understanding with the aim of creating new value. The key to operating such a structure effectively is having all parties share a common ideology such as the Kao Way.

For collaboration between industries, government, and academic institutions or collaboration between companies from different industries, it is important for all parties to overlook personal gains and share the common desire to contribute to society. Leveraging our experience in this kind of collaboration, we can play a leading role in reaching even higher goals.

## What Constitutes Value for Consumers?

**Hasebe** Dr. Mukai has offered us a great deal of feedback. In particular, she expressed her disappointment in the fact that many of the actions Kao is taking have not been properly communicated outside the Company. We tend to focus on communicating the superior qualities and uniqueness of the functions our products offer, but there is a need for us to also communicate the story behind our motivation for creating a particular product, the brand philosophy we considered when developing that product, and the hardships we faced in the development process.

**Mukai** In discussions with members from Kao's R&D Division, I was deeply impressed by their commitment to evidence-based science and their motivation to go all out to create new technologies. I'd like to see those great qualities made clear to consumers buying products in stores.

**Sawada** For example, I heard that the researcher who created *Quickle Wiper* did so because he wanted to make cleaning floors easier for his grandmother, whose back was bent with age. But as we keep improving the product, what we communicate becomes focused on the technical improvements. Basically, it's a product with an original brand philosophy: you can clean your floors without using a noisy vacuum while your baby is sleeping; and you can clean your floors without kicking up dust in the air, which means even families whose children have allergies can use it with peace of mind. We should do more to communicate to consumers the ideas that created this brand philosophy.

Consumer values change as the lifestyles and awareness of people become more diverse. These changes have ushered in a time in which products created with a focus solely on function will not sell. The brand philosophy and story behind a product have become extremely important. I therefore believe that the time has come for us to take a different approach to product creation.



**Chiaki Mukai**

Born in Tatebayashi, Gunma Prefecture in 1952, Chiaki Mukai is a doctor of medical science who became the first woman astronaut in Japan. Dr. Mukai embarked on two spaceflights, first on the STS-65 Columbia in 1994 and again on the STS-95 in 1998. She has served as guest professor at the International Space University, technical counselor of the Japan Aerospace Exploration Agency (JAXA), head of JAXA's Center for Applied Space Medicine and Human Research, and vice president of the Science Council of Japan. Since April 2015, she has been serving as the vice president of the Tokyo University of Science. In 1994, she received the Prime Minister's Special Citation, and in 1995, she was honored with numerous awards both in Japan and overseas, including the Award for Distinguished Service in Advancement of Space Biology—Japanese Society for Biological Sciences in Space and the De La Vaux Medal. In 2015, she received the Legion of Honour (Chevalier) from the French government. In January 2016, she was appointed as a corporate executive fellow of Kao.



Dialogue

What Kao Must Emphasize

**Hasebe** What expectations do you have of Kao in the future?

**Mukai** I think three things are important. First, I would like Kao to take pride in upholding *Yoki-Monozukuri* as the cornerstone of the Kao Way. Many of Kao's products make everyday life more fun. I therefore think Kao should place more importance on the brand philosophy its products have created.

Second, I would like Kao to be conscious of its connection with society. The products that everyone at Kao has taken pride in creating make society better, and Kao needs to be more active in communicating the background behind these products to the outside world.

The third important thing is the creation of connections that transcend generations. Kao has many popular long sellers, which is why I think it can further expand its fan base to transcend generations.

**Sawada** A great deal of our business deals with daily necessities. I therefore feel we need to offer non-sequential proposals that are a "half-step ahead" and that slightly veer off from everyday ways of thinking and experiences and focus more on the consumer's perspective rather than pushing our business on the consumer. Such proposals can amass to create innovation, which in turn gives rise to value innovation that can bring about major changes in society.

With all the dramatic changes taking place in the world, there can be a tendency to head in easier, fail-safe directions. However, I want us to challenge ourselves to create unique ideas and be more flexible in our ways of thinking. It is okay to fail, just so long as we continue to adhere to the spirit of driving our own change. I also think it is important for us to establish an environment that encourages people to take on new challenges. Humans have limitless potential. That is something I hope all members can be sure to remember at all times.





**Mukai** All the young researchers I met here at Kao had a real twinkle in their eyes. A great number of people that belong to Kao have an aspiration to help people and make their lives better. I think that is one of Kao's major assets.

**Hasebe** The kind of people Dr. Mukai mentioned can be found not only in our R&D Division but also in our sales and production divisions and every other business division. Production members give everything and take meticulous care in their quest for high quality. Seeing that, you realize the seriousness required from researchers to show appropriate respect to production. And it's the same with marketing, sales, and everyone else. That can create a virtuous cycle within the Company, and I want everyone in the Company to be aware that Kao's strength as an organization depends on the combined efforts of all members.

**Sawada** I hope that we can renew our conviction to pursuing Group-wide efforts to attain our goals driven by a strong desire to contribute to society through our corporate activities.



# Foundations That Support Kao's Value Creation

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# Human Capital Development

(The Organization's Vitality)

## Cultivating Unique Human Capital and Establishing a Corporate Culture That Supports Kao's Competitive Edge

The core of an organization lies within people that share goals and engage in mutual communication. Through *Yoki-Monozukuri*, Kao has gathered together a group of employees that wish to contribute to society. With this group of employees, Kao has established an organization that values its responsibilities as a corporate citizen. While passing on Kao's founding spirit, our top executives, management, and those on the front-lines came together to discuss the future vision for Kao in these times of change. By engaging in our work with determination, encouraging all employees to take on challenges, and providing fair compensation in accordance with business performance, we have established a vibrant organization that can respond to change.

We work to foster a corporate culture that provides the foundation for the Kao Way. We also take steps to

create an environment that leverages the diversity of our employees and allows them to work in an energetic manner. Creating an environment where employees can achieve growth, cultivating future leaders, and developing the careers of each employee are important aspects for realizing the goals of K20. The Human Affairs Committee, which includes members of Kao's top management, discusses these aspects with the career coordinators in each division and they work together to promote relevant initiatives.

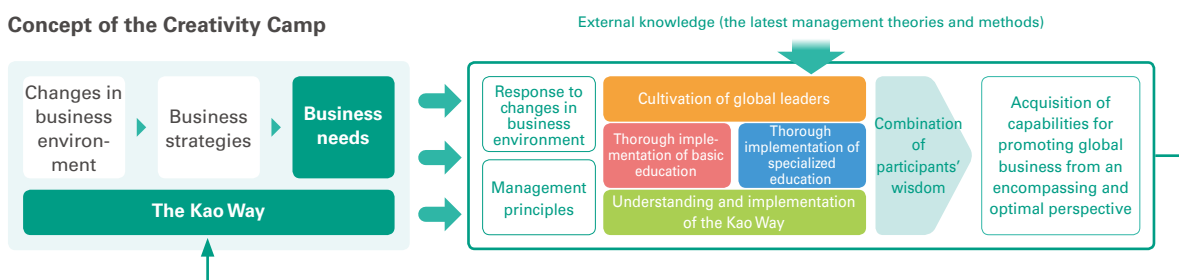
In addition, to maintain and improve Kao's corporate culture, we conduct the employee opinion survey "Find" once every two years on a global basis. Each Group company and division uses the results of Find to formulate and implement action plans aiming to revitalize and strengthen Kao's overall organization.

## Cultivating Leaders Who Can Transform Themselves to Drive Change

In these times of change, we must cultivate leaders who can promote innovative activities. To this end, we have established leadership values that Kao's leaders should embody and use these values to evaluate, cultivate, and promote new leaders. We carry out 360-degree evaluations of potential leaders based on these leadership values and provide them with opportunities to develop their leadership capabilities. In our employee training, we place emphasis on studying environmental changes and basic management

principles. With these efforts, we are expanding the "creativity camp," a program that aims to provide stimulation through the latest external knowledge and combine the wisdom of participants. We also encourage personnel who will be future leaders to participate in open sessions at overseas business schools. This allows them to think about their own leadership qualities through discussions with business leaders around the world. In these ways, we aim to raise the awareness of such personnel toward leading change.

### Concept of the Creativity Camp



## Fostering a Free-spirited Corporate Culture

To engage in cross-organizational activities that leverage free-spirited communication, it is essential to revitalize our organization, create opportunities to pursue new challenges, and foster a culture for nurturing our employees. Kao has continuously promoted activities to drive change and make improvements through projects that involve collaboration across Company divisions. Under the "Create Kao's Future Project," which was launched in 2017 as one of our K20 Promotion Projects, young employees from Europe, the Americas, greater China, the ASEAN region, and Japan held passionate discussions on the kind of organization they want the Kao Group to be by 2030 and the approach they should take to create Kao's future. Based on these discussions, these young employees made proposals to the Company's top management.



A discussion held under "Create the Kao's Future Project" (Europe)



# Research and Development



**By further strengthening our matrix management structure, we will accelerate the expansion of domains in which we provide new value.**

**Yoshihiro Hasebe**

Director, Senior Managing Executive Officer  
Senior Vice President, Research and Development  
Responsible for Corporate Functions

## Strengths of Kao's Research and Development Activities

### Essential Research and Matrix Management Structure

Essential Research is one of Kao's strengths. Essential Research refers to the pursuit of the essence of things from a scientific standpoint. Kao has seeds of knowledge and technology in terms of both humans and materials. With these seeds, Kao pursues a wide variety of Essential Research. This kind of research makes Kao a unique company.

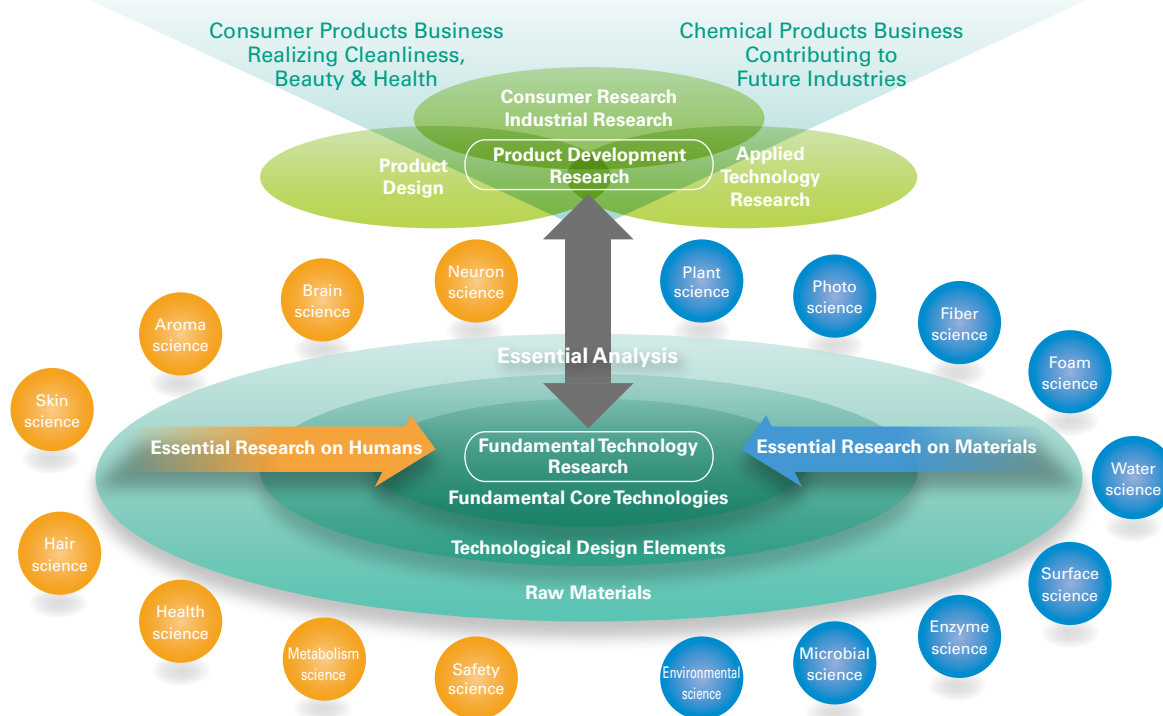
The core of Kao's technology is interface science. The control of surfaces opens up unlimited possibilities. For example, applying fabric softener to the surface of fibers makes them feel fluffy, and adding a mechanism that breaks down the surface of stains creates laundry detergent. If we thoroughly 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.

Technology Research and Product Development Research helps reinforce our R&D activities. In our Fundamental Technology Research, we investigate the seeds of various technologies and the causes of unknown phenomena, to clarify a wide variety of potential applications for our technologies. For Product Development Research, we take advantage of new materials and technologies and give consideration to applying them to a wide range of fields.

Through this kind of research, we can 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 consumer products, which is a BtoC\*<sup>1</sup> business, and 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.

Our matrix management structure for Fundamental

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



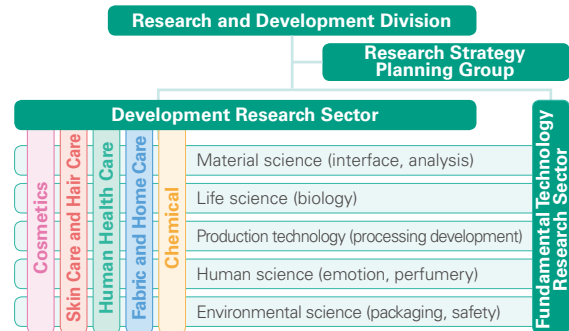
## Basic Policies and Promotion Structure for Research and Development Activities

### 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. 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 Technology Research into one unit. By integrating Fundamental



Technology Research into one sector, we are able to easily integrate knowledge and technologies from many fields to accelerate the expansion of new areas for value creation.

### Accelerating Area Innovation through Local Leadership

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

Creating prototypes is key to area innovation. Seeing a prototype with one's own eyes helps stimulate new

ideas. The ideas that come from the perspective of local people in each country and region and the ideas of those from other countries differ, and it is important to have these differing ideas mix with each other. By promoting borderless R&D activities, we are fostering a corporate culture that focuses on the long term and does not hastily put an end to debate.

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

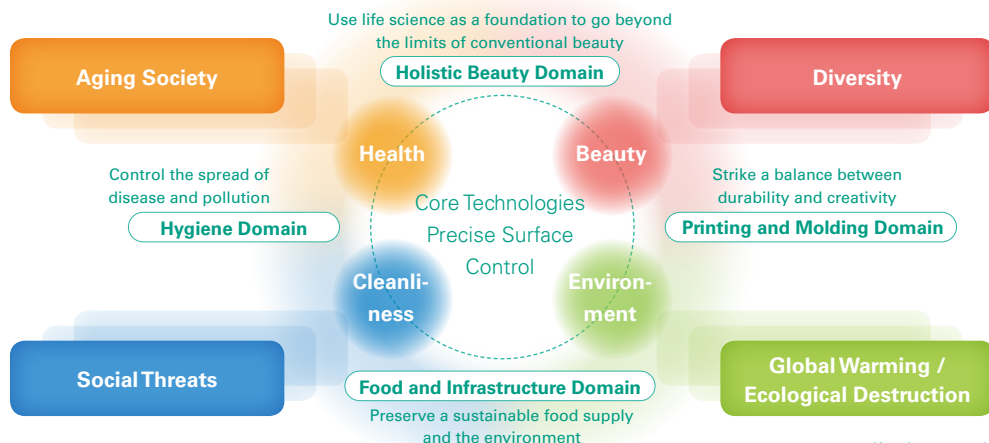
### Taking on Challenges at the Intersection of Existing Businesses and in Areas That Go Beyond Existing Business Domains

There are several domains that 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 aims to strike a balance between durability and creativity.

We have set significant targets for creating new businesses that cover areas unreachable with our

current business domains. We aim to create world-first and world-leading technologies and products. 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, as well as disasters.

These new domains are areas where Kao can use its R&D assets to help people. Accordingly, we are advancing research to make a strong entry into these domains.



## Sales



**Guided by a *Consumer Driven* approach, we will promote sales activities that are constantly aware of market changes.**

### Toshiaki Takeuchi

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

### Kao's Domestic Strategy

The Kao Group has established a system for the continuous communication of information on a wide range of activities, from research and development to sales, in an effort to convey the value of *Yoki-Monozukuri* to consumers and retailers. Those of us working in sales represent the anchor leg of *Yoki-Monozukuri*, and we work to contribute to the profitable growth of the Kao Group by proposing and realizing sales floors that are supported and trusted by consumers and retailers alike.

The major feature of our sales floor creation efforts lies in our scientific analysis of the purchasing behavior of consumers and the proposals we make based on the data and knowledge we attain from this analysis. For example, by using our original purchase behavior analysis tool Kao Shoppers Eye Neo, we conduct thorough analysis that takes into account not only consumer purchase history, such as what the consumer bought and in what amount, but also consumer awareness, such as why the consumer chose a certain store and purchased a certain product. Through this analysis, we strive to come up with ways to provide consumers with new realizations and communicate to them the value of our products at the storefront.

Consumers support both our products and the stores of our retailers through our sales floors, which means that not only does the sales floor contribute to the sales and profits of our retailers, it also helps strengthen the trustworthiness of Kao brands. Going forward, we will continue to promote the creation of *Consumer Driven* sales floors that aim for this kind of win-win-win relationship and provide the source for our brand strength.

In addition to creating these kinds of sales floors at brick-and-mortar stores, we need to pick up the pace for making proposals for the e-commerce market, which continues to grow. In the same manner as our proposals for brick-and-mortar stores, the essence of our proposals for the e-commerce market will still boil down to a *Consumer Driven* approach. By continuing to pursue activities that remain constantly aware of market changes, we will aim to realize robust new sales methods.



### Making Dynamic Proposals by Kao's Comprehensive Strength from R&D to Sales at Our Collaboration Fairs

Every year, the Kao Group invites its retailers to attend its Collaboration Fair, where the Group introduces its product development approach and sales floor strategies, which focus on changing consumer tastes, through product and booth displays.

At each booth, Kao employees in charge of R&D and marketing communicate the specific strengths of Kao products and the new kinds of added value they can offer. Through firsthand observations and experiences at these booths, fair participants are able to gain a deeper understanding of Kao products.

We also engage in direct communication with our retailers to receive their opinions. Accordingly, the Collaboration Fair provides us with an extremely important opportunity to consider strategic consumer proposals together with our retailers.

From R&D to sales, every division of the Kao Group works together to continuously communicate the value of Kao products, and this kind of communication represents one of our unique strengths. Going forward, we will continue to take advantage of opportunities such as the Collaboration Fair as we work together with our retailers to achieve market revitalization.



A display at the Collaboration Fair

## Kao's Overseas Strategy

In Asia, the Americas, and Europe, consumer purchasing behavior and the structure of logistics are undergoing changes. While circumstances differ by region, an overall shift to e-commerce purchases and purchases at businesses that specialize in specific product categories is occurring. We view these kinds of structural opportunities as a business opportunity and will pursue sales activities that lead to profitable growth in order to drive change on our own initiative.

In regard to e-commerce, we are actively making proposals to the major players in each market and working to reinforce our sales structure. We are also promoting strategic initiatives with e-commerce retailers who operate across borders. We are focusing our activities particularly on China, which we view as a key market.

Meanwhile, in Indonesia, which we view as a

growth driver on a par with China, we are bolstering our sales structure by fully leveraging the strengths of local distributors. In doing so, we are working to efficiently deliver products to a wide range of consumers.

In addition, over the past several years we have been taking steps to establish a structure for pursuing efforts with global retailers. Assessing changing needs due to such factors as product differentiation and the shift toward omni-channel retailing, we are deepening our collaboration between retailers in each country and our head office to promote new sales proposals. Furthermore, we are working with Japanese retailers that have recently stepped up efforts to enter Asian markets to develop shopper-oriented sales floors and methods based on know-how cultivated in Japan. These kinds of efforts are indispensable to our overseas operations.

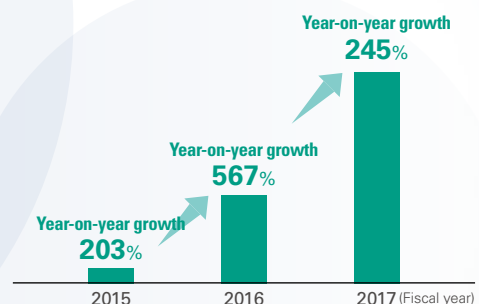


### Expanding Business with E-commerce in China

The e-commerce market continues to experience growth, gaining an even bigger presence in the overall consumer products market. At our local Chinese subsidiaries, we are moving forward with efforts to promptly establish a sales structure that allows all of our brands to actively respond to the shift to e-commerce. In doing so, we aim to acquire new consumers and realize profitable business growth.

Also, in 2016 we began efforts to promote sales through cross-border e-commerce. By curtailing the resale of *Merries* baby diapers by third parties, we are working to provide consumers in China with safe and secure purchasing opportunities. At the same time, we are planning to expand the lineup of new products we offer via cross-border e-commerce.

**Kao's E-commerce Sales in China**  
(Total shipments via local subsidiaries and cross-border e-commerce)





# Activities, Organization, and Structure That Support Kao's Competitive Edge

Through a commitment to Essential Research, Kao has developed groundbreaking new products and has worked to continuously make improvements to these products. In doing so, Kao has created numerous long-selling products. By steadily making product improvements while giving consideration to consumer feedback, Kao has continued to spur innovation and offer delight to consumers and society as a whole. This section will focus on one of Kao's best-known brands, *Attack* laundry detergent, to introduce the activities, organization, and structure that have helped support Kao's competitive edge.



## The Story of the *Attack* Brand

We have been working for over 30 years to make repeated improvements to the *Attack* brand laundry detergent, which was launched in 1987. As a result of these efforts, the *Attack* brand continues to grow to this day. With the strong belief "offering excitement through *Attack*," the brand has maintained a leading position in the Japanese market. Available in 10 countries and regions around the world, *Attack* boasts sales that exceed 100 billion yen. As such, *Attack* is a representative brand that has driven Kao's growth over the years.

Assisting consumers with laundry through reliable technologies for over 30 years



### 1987 *Attack*

A laundry detergent with a compact container size that needs "one spoonful to bring out amazing whiteness," thereby reducing the burden of shopping and storage for consumers



### 2001 *Attack* Microparticles

A laundry detergent that uses "air-in structure," permitting detergent particles to melt even in cold water, allowing for higher levels of user-friendliness

## Research and Development

### Offering New Value through Multifaceted Integration of Unique Technologies

As laundry-related needs become more diverse, including not only the need to remove stains but also sebum, germs, and odors, the environment for doing laundry has undergone significant changes. Our Essential Research works to thoroughly ascertain these changes to create laundry detergents that provide value from the perspective of the consumer. This research spans a wide range of fields, from surface science to microbial science, and has allowed us to continue to offer laundry detergents with unprecedented value, including not only cleaning clothes thoroughly but also reducing the amount of time it takes to do laundry, by integrated unique technologies in a multifaceted manner. With Kao's aspiration to create quality laundry detergent, we have rolled out products in the ASEAN region, where doing laundry by hand is common, in a continued effort to offer ways to do laundry more comfortably around the world through innovative laundry detergents such as *Attack Easy* and *Attack Jaz1*.

## Marketing

### Providing Value in Line with the Times through a Commitment to a Consumer Driven Approach

At the time of its launch, the size of *Attack* containers was significantly more compact than conventional detergents. Together with the catchphrase "just one spoonful for amazing cleanness," *Attack*'s high cleansing power completely changed the way consumers shop for laundry detergent. The creation of *Attack* was made possible by Kao's ambition to develop a product that would be used in daily life and become deeply connected with consumers, thereby meeting their needs and providing value. With 30 years since the launch of *Attack* and amid the rapid changes that are occurring in the daily lives of people as the times change, we remain committed to listening to consumer feedback through our *Consumer Driven* approach and continue to provide value in line with the times.



**2011**  
**Attack Neo**  
**Antibacterial Ex Power**

A super-compact liquid laundry detergent with antibacterial properties that responds to the increased use of leftover bath-water for doing laundry, which reflects a heightened consumer awareness toward saving money, and the need to overcome odors, reflecting the increase in doing large loads of laundry and hanging laundry to dry indoors

**Total production volume of the Attack brand over 30 years**  
Approx. **5.8 billion** containers

**Powder detergent Attack**

Number of cartons Approx. **4.2 billion** cartons

Loads of laundry done Approx. **223.1 billion**

**Attack Neo**

Number of bottles Approx. **0.7 billion** bottles

Loads of laundry done Approx. **26.9 billion**



**2009**  
**Attack Neo**

A liquid laundry detergent that leverages unique cleansing technology while providing single-rinse options, making it an eco-friendly product that conserves water, electricity, and time

**Amount of waste reduced through compact size**

**Powder detergent Attack**

Over 30 years Approx. **1.21 million** tons

**Attack Neo**

Over seven years Approx. **46,000** tons

**Products Rolled Out Overseas**

**2006**  
**Attack Easy (Thailand)**

A laundry detergent that uses the scrubbing power of polymers to make washing laundry by hand significantly less troublesome



**2014**  
**Attack Jaz1 (Indonesia)**

A cream-type detergent geared toward middle-class consumers that breaks up stains through soaking alone



**Amount of water, electricity, and time saved through single-rinse options**

Water Approx. **22 million** tons

Electricity Approx. **269 million** Wh

Time Approx. **93.5 million** days

**Production**

**Evolving Products through Improvement Activities That Aim for Innovation**

Starting with Japan, Attack is now produced in seven countries and regions and sold in 10. Since launching the product, we have made continuous efforts to make improvements with the aim of spurring innovation. For example, with the powder detergent, we have made improvements to quality to the extent that comments on product quality, such as complaints about detergent residue, have decreased by 90% compared with residue levels at the time of the product's launch. We have also worked to reduce the price of Attack by one-third at stores through cost-cutting initiatives, thereby generating higher levels of profits. These product improvement activities, which are exemplified by the Attack brand and our ability to realize safe and stable production, have supported the Yoki-Monozukuri of the entire Kao Group.

**Distribution**

**Contributing to Sustainability through Efficient Transportation Made Possible by a Comprehensive Manufacturing and Sales Structure**

In distribution, we have established a comprehensive supply chain that covers everything from procurement to sales, which allows us to realize a stable and efficient supply structure based on product-specific expectations for demand. In doing so, we are able to level out distribution volumes and reduce inventory. In turn, we are able to load products into trucks and shipping containers at nearly full capacity and ship them across Japan. In addition, we are working to improve transportation efficiency through compact product sizes and are promoting a modal shift to railway and sea transport. We are also actively pursuing collaborative distribution with other companies. In 2013, Attack Neo received the "Eco Rail Mark" certification. This certification reflects our various efforts to contribute to sustainability through our distribution activities.

**Sales**

**Sharing Feedback from the Sales Floor and Contributing to the Yoki-Monozukuri of the Entire Kao Group**

For sales, we make concerted efforts to properly communicate the value of our products to the retailing industry. We also work to gain a direct understanding of the issues the retailing industry faces as well as the needs of consumers. Throughout the course of the Attack brand's growth, we have launched various types of products, including powder detergents, liquid detergents, detergents with bleaching power, and eco-friendly detergents. No matter what type of product we offer, we have continued to gather feedback from the retailing industry and propose product displays and storefront sales promotion materials that communicate the features and differences of each product type. In addition, by sharing feedback from the sales floor with our product development and marketing teams, we work to leverage that feedback in the Yoki-Monozukuri of the entire Kao Group.

# Corporate Governance Structure and Initiatives

## Corporate Governance

### Basic Approach

Kao (hereinafter, "Kao" or "the Company")'s vision by 2030 is to become a company with a global presence. In addition to financial strategies and initiatives that focus on financial results, non-financial strategies and initiatives should be strengthened and work in concert with their financial counterparts to allow a company to grow sustainably. Kao has announced that it recognizes ESG initiatives as an investment for the future, not as a cost, and is promoting them accordingly. Kao considers good corporate governance as a prerequisite and a driving force for strongly promoting the achievement of ESG-related goals. Kao's basic stance on measures related to corporate governance is to set up and operate a management structure and an internal control system, implement necessary measures in a timely fashion, and achieve accountability so that Kao can swiftly respond to changes, realize efficient management that is sound, fair, and highly transparent, and continuously increase corporate value. Kao views accomplishing such tasks as one of its most important management issues. Kao has been actively engaging in activities to listen to stakeholders' voices and, based on input from stakeholders and social trends, it conducts reviews of its

### 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,

### 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 of Kao Corporation</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 and implements the necessary measures and improvements, as needed, in an appropriate manner.

### Corporate Governance Structure

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

the Board of Directors is supported by organizations that 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.



## Ensuring Transparency and Fairness

### Board of Directors

Kao's Board of Directors has secured a balance among knowledge, experience, and skills and a sufficient level of diversity to appropriately carry out the formulation of business strategies and other measures as well as supervise specific business execution. 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 industry from that of Kao, and consulting or academic experience. In addition, Kao makes efforts to enhance the effectiveness of discussions at Board of Directors' meetings in such ways as having Executive Officers in charge of accounting and human affairs who are not Directors attend these meetings.

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, an evaluation is conducted 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 important 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 Board of Directors is therefore currently conducted through self-assessment by the participating members of Board meetings without using an outside third party.

For the FY2017 evaluation, prior to the exchange of opinions for self-assessment at the meeting of the Board of Directors held in January 2018, a survey of the seven members of the Board of Directors and the five members of the Audit & Supervisory Board was conducted. Feedback on the results was then provided before the meeting, during which evaluation of the effectiveness of the Board and an exchange of opinions were conducted. Details of the evaluation are as follows.

#### 1. Efforts to address issues pointed out in the FY2016 evaluation of the effectiveness of the Board of Directors

- In addition to utilizing global human resources, there is a need to accelerate the process for securing diverse human resources that can respond to the major changes in consumer purchasing models and retail distribution models.
- One of the Kao Group's strengths was deemed to be the implementation of speedy organizational management throughout the entire Group, which is made possible by the sharing of the Kao Way. However, in the process of promoting diversity in human resources, there is a need to consider how Kao will balance this strength with diversity promotion.
- Direct and indirect subsidiaries, including those overseas, as well as companies and employees that have become new members of the Kao Group, are not readily visible to management. Accordingly, for such companies there is a need to further enhance internal control systems and work to instill an even stronger awareness of compliance.

#### 2. Expectations of the Board of Directors in the Corporate Governance Code

(1) Discussing the broad direction of corporate strategy; (2) Establishing an environment that supports the appropriate risk-taking by senior management; (3) Carrying out highly effective oversight of Directors and management from an independent and objective standpoint; (4) Establishing appropriate internal control and risk management systems for handling complaints and undertaking financial reporting, and monitoring whether such systems operate effectively; and (5) Engaging in constructive and appropriate dialogue with shareholders and other investors.

#### 3. General operation of meetings of the Board of Directors (proceedings, agendas, reports, materials, discussions, etc.)

Materials are distributed before Board of Directors' meetings are held. When necessary, the Board of Directors' secretariat provides thorough explanation of meeting agendas. Explanations are kept to no more than half of the planned time for the entire Board meeting to ensure that adequate time is available for questions and discussions.

#### 4. Future issues for the Board of Directors

There is a need to further discuss matters pertaining to human resource strategy, which should work to respond to the global expansion of Kao's business and the rapid changes in the business environment, and business strategy that includes non-financial activities (ESG activities). Furthermore, it is important to not only establish internal control systems but also to continue to monitor these systems to ensure that they operate in an appropriate manner.

Corporate Governance Structure and Initiatives

**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**

The Audit & Supervisory Board conducts an evaluation of its auditing effectiveness once a year as well.

At the Audit & Supervisory Board meeting held in February 2018, all Audit & Supervisory Board Members expressed their opinions on the activities of the Audit & Supervisory Board in FY2017. 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. General overview**

- In addition to regular meetings to exchange opinions between Audit & Supervisory Board Members and Representative Directors, regular meetings to exchange opinions with Outside Directors were established.
- To deepen cooperation with Kao's Accounting Auditor, global meetings with the accounting firm of Kao's Accounting Auditor were held regularly and, when necessary, opinions were exchanged with accountants of overseas subsidiaries on an individual basis.
- Cooperation with the Department of Internal Audit continued to deepen, leading to improvement in the precision and efficiency of audits.
- A tripartite auditing framework was gradually established, thereby enabling effective cooperation.

**2. Future issues for the Audit & Supervisory Board**

To facilitate Group-wide control, the Audit & Supervisory Board intends to increase opportunities for communication with audit & supervisory board members of Group companies in Japan. In addition, to properly understand information pertaining to overseas Group companies, the Audit & Supervisory Board will strengthen cooperation with internal auditing divisions, starting with the Department of Internal Audit.

**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 nominees for company President and Directors 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>	○		○	○
	Osamu Shinobe <small>Outside / Independent</small>	○		○	○
Audit & Supervisory Board Members	Toshiharu Numata	○	◎		
	Katsuya Fujii	○	○		
	Toraki Inoue <small>Outside / Independent</small>	○	○	○	○
	Hideki Amano <small>Outside / Independent</small>	○	○	○	○
	Nobuhiro Oka <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/Outside 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.

### 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 and other comments expressed by the shareholders in management appropriately.

### Company Briefings for Shareholders

In addition to the plant tours it conducts yearly, Kao held a company briefing for the first time in Osaka in August 2017, which targeted shareholders who were unable to attend the General Meeting of Shareholders held in Tokyo. At the briefing, President and Chief Executive Officer Michitaka Sawada provided explanations on the Company's performance in FY2017, the concepts incorporated in Kao Group Mid-term Plan K20, and efforts to evolve and expand Kao's Essential Research. After he concluded his discussion, Mr. Sawada fielded questions from those in attendance.

### Facility Tours and Company Briefings in Japan in 2017

Location	Times held	Number of participants
Kawasaki Plant tour (Kanagawa)	4	161
Kao Museum tour (Tokyo)	6	224
Kao Eco-Lab Museum tour (Wakayama)	2	78
Company briefing (Osaka)	1	85



**Corporate Governance Structure and Initiatives**

**Compensation System for Directors and Executive Officers Aimed at Increasing Awareness of Improving Corporate Value**

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.

Starting in FY2017, Kao has introduced a

performance-based share incentive plan for its members of the Board of Directors (excluding Outside Directors) and Executive Officers. Serving as a highly transparent and objective remuneration system that is closely linked to Company performance, the performance-based share incentive plan aims to increase awareness of contributing to improvement in Kao's financial performance and corporate value over the medium to long term.

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

**(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 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®), Kao's main management indicator, which takes into account capital cost.

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

Within a four-year target period from FY2017 to FY2020, 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 mid-term plan target achievement. This incentive plan has two parts: a performance-based part in which Kao shares, etc., are delivered in accordance with the degree of mid-term plan target achievement, and a fixed part in which a certain number of Kao shares, etc., are delivered annually. The performance-based part of the system provides an impetus for achieving the targets of Kao's mid-term plan and increases the link between performance and compensation over the medium to long term. The fixed part of the system strengthens shared interest with Kao's shareholders by promoting the holding of shares by 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 nearly 40% to 50% of the base salary.

To ensure the objectiveness and transparency of the decision-making process, 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 the Company's Representative Directors. In addition, the committee includes all of the Company's Outside Directors and Outside Audit & Supervisory Board Members. As such, over half of the committee's members are independent.

Compensation for Kao's independent Outside Directors consists solely of a fixed monthly salary and does not include the bonus as short-term incentive compensation nor the performance-based share incentive plan as long-term incentive compensation.

Compensation of Audit & Supervisory Board Members also consists solely of a fixed monthly salary, and 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 similar size, industry category, and business type to Kao using officer compensation survey data from an external survey organization. Kao does not have a system for providing retirement benefits to Directors or Audit & Supervisory Board Members.

## Compensation Paid to Members of the Board and Audit & Supervisory Board Members in FY2017

Members of the Board	Eight, 501 million yen (Outside Directors: four, 60 million yen)
Audit & Supervisory Board Members	Seven, 78 million yen (Outside Members: four, 30 million yen)

Notes:

- The above numbers of Directors/Audit & Supervisory Board Members include one Outside Director, one Audit & Supervisory Board Member, and one Outside Audit & Supervisory Board Member who resigned at the conclusion of the 111th Annual General Meeting of Shareholders held on March 21, 2017.
- The aggregate amounts of remuneration, etc., paid to members of the Board include the following amounts:
  - The amount paid as bonuses to members of the Board  
145 million yen to four members of the Board
  - The amount accounted for as the performance-based share incentive plan  
105 million yen to four members of the Board
- Maximum aggregate amounts of remuneration, etc., are as follows:
  - Maximum aggregate amounts of remuneration, etc., 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) but does not include remuneration paid to members of the Board who also serve as employees of the Company for their services as employees.  
(For reference) Based on a resolution adopted at the 111th Annual General Meeting of Shareholders held on March 21, 2017, Kao has introduced a performance-based share incentive plan for its members of the Board of Directors (excluding Outside Directors) and its Executive Officers, which shall be applicable separately from the maximum aggregate amount of remuneration, etc., for members of the Board. Under this plan, trust money of up to 1.85 billion yen is contributed concerning the fiscal years subject to Kao's mid-term plan (the initial period to be covered being from the fiscal year ended December 31, 2017, to the fiscal year ending December 31, 2020), and Kao shares are acquired through a trust and then delivered through the trust depending on factors such as the level of achievement of the mid-term plan's performance targets.
  - Maximum aggregate amounts of remuneration, etc., paid to the 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)	Aggregate amount of remuneration: 183 million yen (base salary of 81 million yen, bonus of 67 million yen, and performance-linked remuneration of 35 million yen)
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Note: Only Director remuneration amounts totaling over 100 million yen are listed.

## Promoting ESG Activities

The Kao Sustainability Statement indicates the direction of Kao's ESG activities, and Kao is promoting the statement under a robust governance structure. Kao has established the Internal Control Committee and the Sustainability Committee, and

the Company's Board of Directors monitor these committees to ensure that they are operating appropriately. Through the effective management of these committees, Kao will work to achieve its ESG-related goals.

### Management Committee

The Board of Directors deliberates on and determines the direction of Kao's management, primarily in terms of business strategies. For the execution of such strategies, Kao delegates wide-ranging authority to the Management Committee, which is mainly composed

of members with the position of Managing Executive Officer or higher who have experience in business execution as persons responsible for core businesses and functions. In doing so, Kao works to accelerate its decision making and management.

### Sustainability Committee

Kao has established the Sustainability Committee with the aim of gaining the support and trust of all its stakeholders and contributing to the sustainability of

the Company and society as a whole by having the committee determine the direction of Kao's sustainability activities and promote them accordingly.

### Internal Control Committee

Kao has established the Internal Control Committee with the aim of determining the direction of the Group's internal control systems. Through this committee, Kao also aims for the cross-organizational integration of functions pertaining to compliance,

risk management, internal audits, information disclosure, quality assurance, and environmental safety, in order to improve the accuracy of its financial reporting and quality of its business operations.

### Strengthening Governance at Group Companies

Kao has delegated authority to each Group company with the aim of maintaining the transparency of management and securing appropriate and swift management at these companies. Kao also requires each Group company to make reports to its head

office and has introduced a policy manual that determines items that need to be approved by the head office. Kao also regularly verifies whether or not each Group company is utilizing the policy manual in an appropriate manner.

## Compliance / Risk Management

### Structure and Initiatives for *Integrity*

#### 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 behaving lawfully and ethically and conducting fair and honest business activities. Kao regards *Integrity* as the starting point of its corporate activities and

promotes it as a foundation for protecting the global environment and earning the respect and trust of all stakeholders, including consumers, local communities, business partners, employees, and shareholders and other investors.

#### Promotion Structure

Kao has established the Compliance Committee, chaired by a Senior Managing Executive Officer and made up of representatives from relevant divisions and subsidiaries and associates. The committee gives consideration to medium-to-long-term and annual action plans. Based on these plans, the committee (1) discusses the establishment and revision of not only the Kao Business Conduct Guidelines (BCG) but also internal guidelines pertaining to preventing corruption, avoiding

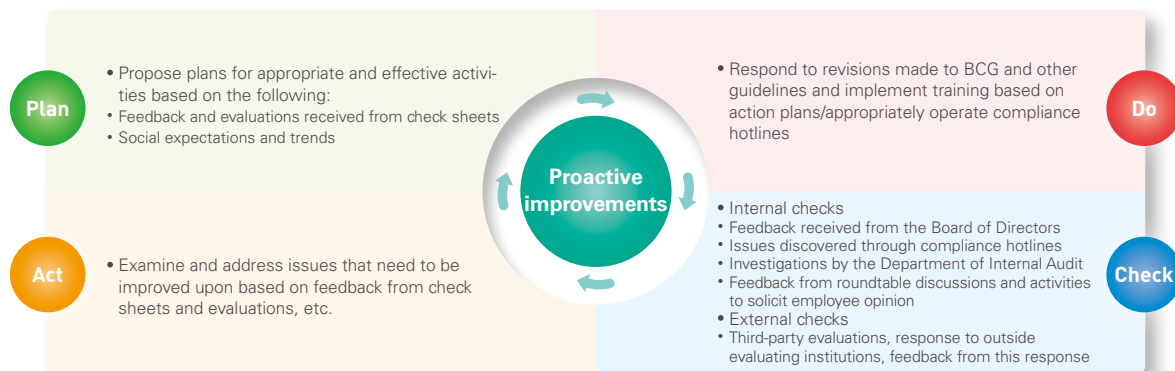
conflicts of interest, and refusing inappropriate benefits such as hospitality and gifts; (2) implements educational activities to promote the spread and establishment of corporate ethics both in Japan and overseas; and (3) monitors responses to compliance hotlines (hotlines established for reporting matters related to compliance and business ethics). The committee also reports other important matters and provides an overview of its activities to the Board of Directors in an appropriate manner.

#### PDCA Cycle for Kao's Compliance Activities

Kao aims to further enhance its compliance activities by applying a PDCA cycle (described in the diagram below) every year. In particular, by obtaining a third-party evaluation from an outside consulting firm, responding to outside evaluation

institutions, and receiving feedback on these responses, Kao aims to deepen its understanding of the kinds of compliance activities that stakeholders demand and make efforts to realize such activities.

#### Kao's Compliance Activities



#### Main Compliance Activities in FY2017

- Revised the Kao Business Conduct Guidelines Casebook and used these revisions to conduct training
- Compliance Awareness Month (October): Created posters using a picture of the Compliance Committee chairman, distributed stickers with our compliance logo, conducted e-learning activities, investigated level of compliance awareness, introduced case studies, etc.
- Selected as one of the World's Most Ethical Companies in February 2018 (12th consecutive year of being selected)

Note: "World's Most Ethical Companies" and "Ethisphere" names and marks are registered trademarks of Ethisphere LLC.



World's Most Ethical Companies selection logo



# Structure and Initiatives for 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

manages the various risks and crises that could occur throughout its overall business activities in accordance with the Kao Risk and Crisis Management Policy.

## Important Initiatives

In the promotion of Mid-term Plan K20, it is necessary for Kao to manage risks and crises at an even higher level. To this end, Kao is strengthening its ability to respond to corporate risks, promoting

appropriate risk response at overseas subsidiaries and affiliated companies, and bolstering its response structure in times of crisis. In these ways, Kao aims for highly effective risk and crisis management.

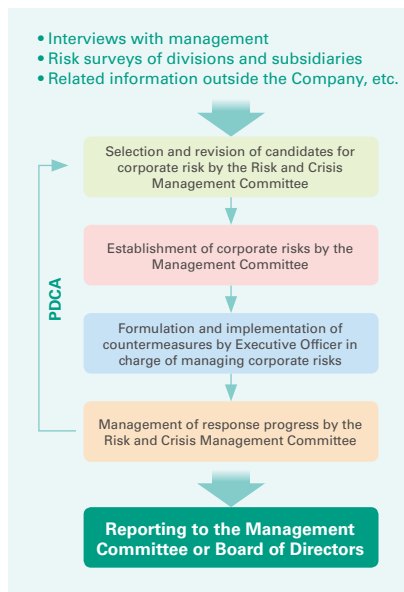
## Promotion Structure

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 response to risk.

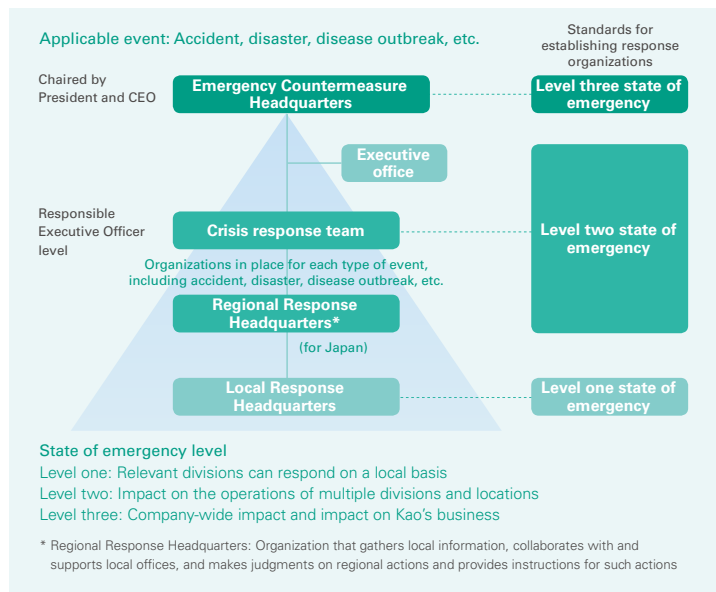
Kao promptly establishes an organization for countermeasures to minimize physical damages and financial losses during a crisis. This organization centers on the Executive Officer in charge of managing corporate risks as well as on personnel responsible for managing risk within Company divisions and at subsidiaries and affiliates.

Depending on the magnitude of the impact on the Kao Group, 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 Framework during Times of Crisis



## Major Risks

Kao recognizes the following as major risks and responds to these risks accordingly: 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; and leak of confidential or personal information; among others.

## Roundtable Discussion with Outside Directors



**Yukio Nagira\*<sup>1</sup>**  
Independent Outside Director

**Michitaka Sawada**  
President and Chief Executive Officer

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

**Masayuki Oku**  
Independent Outside Director

## Transforming Ourselves to Drive Change

As part of its efforts to enhance corporate governance, Kao is proactive in incorporating opinions from outside the Company. In this section, three of Kao's Outside Directors, together with the Company's President and Chief Executive Officer, offer their opinions on what they think Kao should be doing, not only to achieve the goals set out in K20, the Kao Group Mid-term Plan that serves as a stepping stone to future growth, but to prepare for what lies ahead.

\*1 Yukio Nagira resigned from the position of Outside Director at Kao on March 23, 2018. This discussion was held when Mr. Nagira was still serving as an Outside Director for the Company.

### Four Disruptive Trends

**Oku** K20 provides a guide for the vision the Kao Group hopes to achieve for itself by the year 2030. I would like to start the discussion by saying something about the changes in economic conditions that are projected to occur between now and then.

Those changes are nicely summarized in McKinsey & Company's *No Ordinary Disruption: The Four Global Forces Breaking All the Trends*, which was published by Diamond Inc. in Japan in January 2017. This book describes four dominant trends that will become disruptive forces in the years to come. These forces are (1) the shift of the locus of economic activity and dynamism to emerging markets; (2) the growing impact of technology; (3) the continued aging of populations around the world; and (4) the accelerated movement of capital, people, and

information around the world, bringing about greater global connections. In the midst of these rapidly occurring changes, will Kao's current strengths remain relevant? I believe now is the time to consider that question.

**Kadonaga** Seen objectively from an outside perspective, Kao's strength lies in its commitment to *Yoki-Monozukuri*. Kao members' goals are aligned—to create good products, not just products that will sell. And Kao strives to ensure a *Consumer Driven* approach, which is reflected by the fact that consumer feedback received one day is reviewed by each division before they even begin work the following day. I have sensed that this commitment to products and consumers is rooted in Kao's culture.

**Nagira** My first thought about Kao is that it is full of members who truly love the Company. I believe that, too, this is a part of Kao's culture, and a valuable asset.

**Sawada** There are many strengths I have come to recognize over my many years of working at Kao. The first of these strengths is Kao's continued pursuit of advanced initiatives. In sales, we were ahead of our competitors in laying out a direct sales structure. In addition, Kao boasts an extremely efficient production structure. Kao also has made efforts to set up operational frameworks and has introduced automated warehouses. For research, we have utilized our matrix management structure to carry out Essential Research and implement various technologies in a wide range of products. Moreover, Kao has introduced EVA<sup>\*2</sup> in its financial activities and has taken steps to bolster governance. These kinds of efforts are extremely advanced for a company involved in the toiletry and cosmetics industries.

Behind all those efforts is the diligence of our employees. They always go the extra mile and approach every task carefully and seriously. I think we also have a cooperative culture, one in which members can feel free to consult with other divisions knowing they will be greeted with a friendly ear.



#### Sonosuke Kadonaga

After joining Chiyoda Corporation in 1976, commenced designing chemical plants. While there, also earned a Master of Science in Chemical Engineering from the Massachusetts Institute of Technology. Joined McKinsey & Company in 1986, handling wide-ranging responsibilities including management strategy, organizational and corporate transformation, and human resource development. Retired from McKinsey in 2009. Vice president of Business Breakthrough University (current). Appointed Outside Director at Kao in June 2012, and currently serves as Chairman of the Board of Directors, offering recommendations based on deep insights into international management gained through extensive experience.

Still, as we look to 2030, we face the question of whether our past efforts, and the culture that has supported them, will remain strengths for Kao going forward. I feel strongly that now, more than ever, we must give serious thought to what must be changed, while at the same time identifying those areas to which we should redouble our commitment.

\*2 EVA<sup>®</sup> is a registered trademark of Stern Stewart & Co.

## Thinking with High Beams

**Kadonaga** I think Kao's advanced initiatives, uncompromising approach, and open corporate culture are among the Company's strengths. As for the issue of areas that need to be changed, in terms of how we develop products going forward, I think it may be useful to look at the "first-in-class" and "best-in-class" approaches taken by the pharmaceutical industry.

First-in-class refers to being the first to develop and introduce an advanced drug. Still, being first is not always best. Being second or third to market means having the opportunity to observe the progress of the first mover and incorporate improvements to the product. Those improvements create a best-in-class drug, one that often leads to business success.

Kao has succeeded through a first-in-class approach. However, the merits of such an approach can no longer be maintained for a long period as similar products continue to be launched one after another. With that said, Kao's approach to product development also has elements of the best-in-class approach, as the Company continuously makes improvements to its current products and has achieved numerous long-selling products.

**Oku** It is important for management to look to the future while incorporating lessons from the past. Kao has continuously engaged in self-transformation, and that is precisely why it has been able to continue to swiftly introduce products to meet consumer demand at an early stage. I think this demonstrates an excellent level of sensitivity. Kao also enjoys a great deal of financial strength, which gives Kao the ability to continue to generate change going forward.

**Kadonaga** Within the top listed companies of the world, there are companies that, rather than creating things on their own, communicate and disseminate information regarding things other companies have made. I find this interesting because such companies cannot exist without the presence of companies that create exceptional products.

Still, these companies will continue to have an even larger presence, and cannot be ignored. Even amid the increase in these kinds of companies, I believe the right approach for Kao is to continue to leverage *Yoki-Monozukuri* as its foundation. However, to avoid alienating itself as simply a manufacturer, Kao needs to make use of new kinds of media such as social networking services, which are offered by the companies I have just described.

Roundtable Discussion with Outside Directors

Changing Our Shape

**Sawada** In the more than 130 years since its founding, Kao has, through *Yoki-Monozukuri*, built a solid track record by being meticulous and refusing to cut corners. You might say this has given us the shape we know of as Kao today.

The shape we have created based on our past achievements is not something we can easily change overnight, but to achieve our vision for 2030, I feel that we must change our shape, in a positive sense, between now and 2020.

I spoke with CEOs from other global companies in the same industry at a conference I recently attended. I gained an understanding of the strong sense of urgency these CEOs had. Amid these

times of change, many small but excellent companies have emerged and have begun to slowly capture the market share, and these CEOs have certainly been feeling pressure from these smaller companies. We are in the same situation, and that is exactly why we need to identify the areas we need to change and promptly change them accordingly.

**Kadonaga** That sense of crisis is present in all industries. Recently, there has been an increase in the number of services that require the use of a smartphone, and there will likely be even more services that only can be used via smartphones going forward. Kao needs to consider its level of awareness toward this trend and how it can respond to it.

Making the Leap to a Global Company

**Oku** Now is the time for Kao to make a leap from being a large corporation to being a global corporation. As Kao becomes bigger in size, it must consider whether it can continue to adopt its existing approach.

**Sawada** To date, Kao has always maintained its *Genba-ism* approach, with individual divisions united in the continued pursuit of *Yoki-Monozukuri* while keeping an eye on the bigger picture. The question is whether that same approach will work as the Company moves up to the next level.

As sales outside Japan grow to two or even three trillion yen, the question of whether we can continue doing things the same way will, I think, become a significant issue.

**Nagira** In the midst of these kinds of changes, what attitude should we expect each individual member to have? In my role as executive advisor to Nitto, I often tell its employees, "Stand close enough to generate friction!" In our involvement with others, if we wish to understand what the other person is truly seeking, we need to close the emotional distance between us. Getting "close enough to generate friction" makes us willing to talk about our true thoughts and reveal our ideas.

Kao's overseas sales account for over 34% of its total sales, and the Company is working to raise that level moving forward. To help do so, I ask that Kao's employees be more open with each other. Building relationships is important for competing on a global playing field.

**Oku** Even as employees move forward with that kind of attitude, when a company attempts to transform itself, I think it is important that the leaders themselves continue to talk to their employees about their values as a company. That is something that only those at the top can do.



**Yukio Nagira**  
 Joined Nitto Denko Corporation in 1971. Appointed representative director and president in 2008, then named representative director and chairman in 2014, and executive advisor (current position) in 2017. Advocate of aggressive overseas expansion in response to changing business conditions, with experience in global corporate management and human resource development. Has demonstrated skills in creating new business centered around technology and in the use of M&A. Appointed Outside Director at Kao in March 2017. Offers advice on Kao's goals for global expansion, asset maximization, and the building of new assets.



**Sawada** For a company to successfully step up as it grows in size requires, I believe, a series of dramatic leaps. That, in turn, requires matching the thinking of top management with that of *Genba*. In that sense, I think my visits to Kao Group companies, where we hold our *Genba* Roundtable discussions with members, have enormous significance. Since May of 2017, I have also been posting entries about once a month on the CEO's Blog on our intranet, where I present our members with my day-to-day thoughts on a variety of subjects. I think these two initiatives, along with instructions we issue that communicate the Company's direction, including the mid-term plan, help support our efforts to make dramatic leaps forward.

**Nagira** Nitto Denko also makes use of internal PR sites to communicate the vision of its top management. The company also forms "Kurumaza" roundtable discussions, where small numbers of people exchange opinions thoroughly. If an argument arises in a meeting, or a discussion gets out of hand, we immediately assemble separately in our "Kurumaza." At some point, along with the term "Kurumaza," the approach itself was



**Masayuki Oku**

Joined Sumitomo Bank in 1968. Earned a master's degree from Michigan Law School in 1975. Became manager of Sumitomo Bank's Chicago branch in 1991. In 2005, assumed position as chairman of the board at Sumitomo Mitsui Financial Group, and president and chief executive officer at Sumitomo Mitsui Banking Corporation; and currently is honorary advisor. Twice served as chairman of the Japanese Bankers Association, and in 2011 served as vice chair of Keidanren, the Japan Business Federation. Internationally active as the head of a major financial institution. Appointed Outside Director at Kao in March 2014. Offers wide-ranging advice backed by extensive global experience in corporate management.

established, and it created a freer atmosphere. Similarly, Kao uses matrix management to bring together members from a variety of divisions, and is very effective in holding meetings with an open, positive atmosphere. I think this is a major asset for the Company.

## Practicing Integrity

**Kadonaga** Mr. Sawada is an inspirational leader that can give Kao employees courage. I have a strong sense of his integrity: the *Integrity* that is part of the Kao Way. Being able to believe in the integrity of a company's top management is extremely important.

**Sawada** No matter what changes may occur, our criterion is always *Integrity*.

At our management and Board meetings, our discussions are premised on two ideas: "When in doubt, do it," and, "If it has potential, give it a try." Still, in some cases we must abandon our efforts.

At such times, we base our decisions on *Integrity*. There have been times when such decisions have come from our Outside Directors and auditors urging me to value our *Integrity*, reminding me that *Integrity* is something Kao must not lose—before I even have a chance to mention it. That makes me very happy.

I am confident that, under our current governance structure, we will never find ourselves headed in the wrong direction. It is because we are supported by such a structure in which Kao is able to take on bold challenges. I truly believe that.

## Transforming Ourselves

**Sawada** This year marks the second year since the start of K20. K20 is just a checkpoint, though, on the way to our true goal of sustainable growth in 2030 and beyond. The aspirations embodied in our key theme, "Transforming Ourselves to Drive Change," do, of course, include the important goal of achieving specific numerical targets, but the

truly critical point is how we transform ourselves as we aim for the next stage of growth. To reiterate, in the four years until 2020, I want to clearly identify the areas to which we should recommit, and those which we should change. As management, we will reflect upon these issues in our discussions as we implement thorough governance going forward.

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

(As of March 23, 2018)



**Toraki Inoue**

Independent Outside Audit &  
Supervisory Board Member

**Toshiharu Numata**

Full-time Audit & Supervisory  
Board Member

**Toshiaki Takeuchi**

Representative Director  
Senior Managing Executive Officer

**Nobuhiro Oka**

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  
Senior 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

**Osamu Shinobe**

Independent Outside Director

Directors, Audit & Supervisory Board Members, and Executive Officers

(As of March 23, 2018)

Board of Directors

Michitaka Sawada

Representative Director  
President and Chief Executive Officer

Apr. 1981	Joined the Company
Jul. 2003	Vice President, Sanitary Products Research Laboratories
Jun. 2006	Vice President, Global Research & Development, Executive Officer
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)
Jan. 2014	Responsible for Product Quality Management
Jan. 2016	Responsible for Corporate Strategy

Sonosuke Kadonaga

Independent Outside Director  
Chairman of the Board of Directors

Apr. 1976	President, Intrinsic Vice President, Business Breakthrough University
Jun. 1981	Joined Chiyoda Corporation 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
Jun. 2004	President, Personal Care Business Second Head Quarters
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
Jan. 2018	Senior Vice President, Consumer Products (current); Senior Vice President, Marketing Research Development, Consumer Products (current)

Masayuki Oku

Independent Outside Director

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., 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. 2006	Vice President, Kyushu Office, Kao Customer Marketing Co., Ltd.
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	Managing Executive Officer, Kao Corporation; President, Kao Customer Marketing Co., Ltd.; Member of the Board, Representative Director
Jan. 2016	Representative Director, President, Kao Group Customer Marketing Co., Ltd. (current); Representative Director, Senior Managing Executive Officer (current)

Osamu Shinobe

Independent Outside Director

Apr. 1976	Vice Chairman, ANA HOLDINGS INC. Joined ALL NIPPON AIRWAYS CO., LTD. (Now ANA HOLDINGS INC.)
Jun. 2007	Member of the Board, ALL NIPPON AIRWAYS CO., LTD.
Apr. 2009	Executive Vice President ( <i>jomu torishimariyaku</i> ), ALL NIPPON AIRWAYS CO., LTD.
Jun. 2011	Executive Vice President ( <i>senmu torishimariyaku</i> ), ALL NIPPON AIRWAYS CO., LTD.
Apr. 2012	Senior Executive Vice President, ALL NIPPON AIRWAYS CO., LTD.
Apr. 2013	Member of the Board, ANA HOLDINGS INC.; President & Chief Executive Officer, ALL NIPPON AIRWAYS CO., LTD.
Apr. 2017	Member of the Board, Vice Chairman, ANA HOLDINGS INC. (current)
Mar. 2018	Member of the Board, Kao Corporation (current)

Yoshihiro Hasebe

Director  
Senior 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
Mar. 2016	Member of the Board
Jan. 2018	Director, Senior Managing Executive Officer (current); Manager of Corporate Function Division (current)



## Audit & Supervisory Board Members

### Toshiharu Numata

Full-time Audit & Supervisory Board Member

Apr. 1989	Joined the Company
Feb. 1999	Vice President, Processing Development Research Laboratories
Jun. 2003	Corporate Associate Officer
Jun. 2005	Executive Officer, Vice President, Research and Development
Jun. 2006	Senior Vice President, Research and Development; Member of the Board, Executive Officer
Jun. 2008	Member of the Board, Executive Vice President; responsible for Chemical Business, Product Quality Management; and TCR Promotion
May 2012	Responsible for 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)

### 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 Joined Arthur Andersen LLP
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
Mar. 2017	Audit & Supervisory Board Member, Kao Corporation (current)

### Nobuhiro Oka

Independent Outside Audit & Supervisory Board Member

	Attorney-at-Law Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd.
Apr. 1993	Registered as an attorney-at-law, joined Kajitani Law Offices
Apr. 1997	Representative Partner, Takekawa & Oka Law Office
Oct. 2004	Representative Partner, Takekawa, Oka & Yoshino Law Office
Apr. 2012	Professor, Keio University Law School (current)
Oct. 2013	Representative, Oka-Partners Law Office (current)
Mar. 2014	Outside Audit & Supervisory Board Member, Kao Customer Marketing Co., Ltd.
Jan. 2016	Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd. (current)
Mar. 2018	Audit & Supervisory Board Member, Kao Corporation (current)

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

(As of March 23, 2018)

**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.

**Yoshihiro Hasebe**

Senior Managing Executive Officer  
Senior Vice President, Research and Development  
Responsible for Corporate Functions

**Masumi Natsusaka**

Managing Executive Officer  
Responsible for Special Missions

**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.

**Tomoharu Matsuda**

Managing Executive Officer  
Senior Vice President, Consumer Products  
Responsible for Skin Care and Hair Care Business  
Responsible for Human Health Care Business  
Responsible for Fabric and Home Care Business

**Shigeru Ueyama**

Managing Executive Officer  
Senior Vice President, Corporate Strategy

**Tadaaki Sugiyama**

Executive Officer  
Senior Vice President, Legal and Compliance

**Masakazu Negoro**

Executive Officer  
President, Chemical Business  
Chairman of the Board, Fatty Chemical (Malaysia)  
Sdn. Bhd.  
Chairman of the Board, Pilipinas Kao, Inc.  
Presidente, 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.

**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

**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

**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 and President,  
Kao Corporation Shanghai  
Chairman of the Board and President,  
Kao Commercial (Shanghai) Co., Ltd.  
Chairman of the Board and President,  
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  
Senior Vice President, Media Planning  
and Management

**Kenichi Yamauchi**

Executive Officer  
Senior Vice President, Accounting and Finance

**Osamu Tabata**

Executive Officer  
Vice President, Supply Chain Management –  
Demand and Supply Planning Center – Chemical  
Vice President, Supply Chain Management –  
Technology Development Center –  
Project Management  
Vice President, Supply Chain Management –  
Technology Development Center –  
Production Technology

**Hideaki Kubo**

Executive Officer  
Vice President, Research and Development –  
Core Technology

**Yoshihiro Murakami**

Executive Officer  
Responsible for Cosmetics Business  
Representative Director, President,  
Kanebo Cosmetics Inc.

**Ryoichi Harada**

Executive Officer  
Senior Vice President,  
Enterprise Information Solutions

**Corporate 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.

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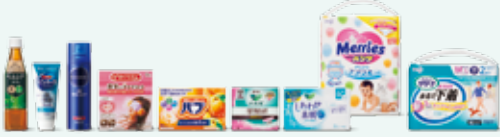


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# Overview of Kao's Business (FY2017)

At the beginning of FY2018, Kao reorganized its business segments. The details on this reorganization can be found on pages 72 and 73. In addition, details on relevant domestic subsidiaries and affiliates can be found on page 80.

Consumer Products Business	FY2017 Performance	Net Sales and Operating Income Composition Ratios*1		
<h3>Beauty Care Business</h3> 	<p><b>Net Sales</b>  <b>586.0 billion yen</b>                      (-2.6% year on year / like-for-like*2                      +2.1% year on year)</p> <p><b>Operating Income</b>  <b>57.6 billion yen</b>                      (+6.5 billion yen year on year)</p> <p><b>Operating Margin</b>  <b>9.8%</b>                      (+1.3 percentage points year on year)</p>	<p><b>Net Sales</b>  <b>39.3%</b></p>	<p><b>Operating Income</b>  <b>28.4%</b></p>	
<h3>Human Health Care Business</h3> 	<p><b>Net Sales</b>  <b>294.3 billion yen</b>                      (+7.8% year on year / like-for-like*2                      +13.0% year on year)</p> <p><b>Operating Income</b>  <b>38.7 billion yen</b>                      (+12.7 billion yen year on year)</p> <p><b>Operating Margin</b>  <b>13.1%</b>                      (+3.6 percentage points year on year)</p>	<p><b>Net Sales</b>  <b>19.8%</b></p>	<p><b>Operating Income</b>  <b>19.1%</b></p>	
<h3>Fabric and Home Care Business</h3> 	<p><b>Net Sales</b>  <b>335.7 billion yen</b>                      (-2.7% year on year / like-for-like*2                      +1.5% year on year)</p> <p><b>Operating Income</b>  <b>76.1 billion yen</b>                      (-2.0 billion yen year on year)</p> <p><b>Operating Margin</b>  <b>22.7%</b>                      (+0.1 percentage point year on year)</p>	<p><b>Net Sales</b>  <b>22.5%</b></p>	<p><b>Operating Income</b>  <b>37.5%</b></p>	
<h3>Chemical Business</h3>	<h3>Chemical Business</h3> 	<p><b>Net Sales</b>  <b>310.3 billion yen*3</b>                      (+13.3% year on year / like-for-like*2                      +10.8% year on year)</p> <p><b>Operating Income</b>  <b>30.3 billion yen</b>                      (+0.6 billion yen year on year)</p> <p><b>Operating Margin</b>  <b>9.8%</b>                      (-1.0 percentage point year on year)</p>	<p><b>Net Sales</b>  <b>18.4%</b></p>	<p><b>Operating Income</b>  <b>15.0%</b></p>

\*1 Net sales composition ratios are calculated using sales to customers. Operating income composition ratios are calculated before the elimination of intersegment transactions.

\*2 Like-for-like growth excludes the effects of IFRS15 adoption, sales system revisions, and currency translations.

\*3 Includes intersegment sales and transfers.



## Business Conditions

### Cosmetics Products

Sales of cosmetics declined 4.8% year on year (up 2.1% on a like-for-like basis), to 242.7 billion yen. Outside Japan sales were solid in Asia, primarily in China. In Japan, sales decreased slightly. The rollout of *SOFINA iP* in Asia got off to a smooth start. In addition, Kao commenced the rollout of *KANEBO* global brand in Japan, Asia, and Europe. Through department store sales channels in Japan, sales increased for the prestige brands *SUQQU* and *est the lotion*.

### Skin Care and Hair Care Products

Sales of skin care and hair care products decreased 1.0% year on year (up 2.1% on a like-for-like basis), to 343.3 billion yen. In terms of skin care products, *Bioré* enjoyed robust sales in Japan, Asia, and the Americas. Kao commenced the rollout of the brand in Europe, and sales increased steadily. For the *Curél* brand, Kao introduced new products and worked to enhance the lineup of cosmetics product categories. As a result, sales grew significantly in Japan and Asia. For hair care products, sales of products geared toward the mass market declined year on year, while sales of professional hair care products were nearly on a par with sales of the previous fiscal year.

In the Human Health Care Business, sales rose 7.8% (up 13.0% on a like-for-like basis), to 294.3 billion yen. Food and beverage products saw struggling sales as Kao was unable to fully communicate the value of the food for specified health uses (FOSHU)-type beverage *Healthya*. Meanwhile, sales of sanitary products increased year on year, with sales of *Merries* baby diapers realizing significant growth. Sales of baby diapers in Japan were up, and cross-border e-commerce sales in the Chinese and Indonesian market rose substantially. In addition, sales rose for *Laurier* brand sanitary napkins. Sales of personal health products increased year on year, as did sales of oral health care products, due in part to the launch of new products. Thanks to the positive impact of increased sales in Japan and Asia, operating income in the Human Health Care Business came to 38.7 billion yen, up 12.7 billion yen compared with the previous fiscal year.

In the Fabric and Home Care Business, sales were down 2.7% (up 1.5% on a like-for-like basis), to 335.7 billion yen. Sales of fabric care products on a like-for-like basis rose year on year in Japan. Amid a fiercely competitive environment, laundry detergent sales remained on a par with sales of the previous fiscal year, while sales of fabric softeners were steady. Home care product sales were also solid. Sales of the dishwashing detergent brand *CuCute* rose as *CuCute CLEAR Foam Spray* began to penetrate the market. In Asia, laundry detergent sales remained relatively unchanged compared with the previous fiscal year. As a result of such factors as the rise in raw material prices, operating income in the Fabric and Home Care Business came to 76.1 billion yen, down 2.0 billion yen compared with the previous fiscal year.

## Business Conditions

In the Chemical Business, sales rose 13.3% (10.8% on a like-for-like basis), to 310.3 billion yen. Sales of oleo chemicals increased due to factors including efforts to adjust the selling price globally in line with increased raw material costs. Performance chemical business also enjoyed sales growth as a result of not only the increase in automobile production in Japan, China, and other countries but also the gradual recovery in markets related to infrastructure in Japan. Sales of specialty chemicals increased steadily with growth in demand for information material-related, hard disk-related, and other products. As sales grew despite the impact of rapid fluctuations in raw material prices, operating income in the Chemical Business stood at 30.3 billion yen, up 0.6 billion yen compared with the previous fiscal year.

# Consumer Products Business



**To achieve the targets of K20, we will actively take on new challenges without leaning on past successes.**

**Katsuhiko Yoshida**

Representative Director  
Senior Managing Executive Officer  
President, Consumer Products

## Basic Strategy for Realizing the Targets of K20

In FY2017, the markets for toiletries and cosmetics in Japan remained steady, rising 2% and 1%, respectively.

In the household and personal care market, there was a continued shift toward high-value-added products and an expansion in sales via the Internet and mobile devices. In addition, e-commerce became more widespread and a trend toward offering multiple brands continued. The cosmetics market was supported by the continued purchase of products in high price ranges by inbound tourists, which offset a decline in purchases of products in medium price ranges. This resulted in an overall steady market. Meanwhile, a large number of companies from other industries entered the cosmetics market, while brands in the market continued to diversify.

Markets in Asia were strong due to the expansion of the middle class. The markets in the Americas and Europe were also steady as a whole, despite various geopolitical impacts. In a similar manner as Japan, e-commerce continued to become more

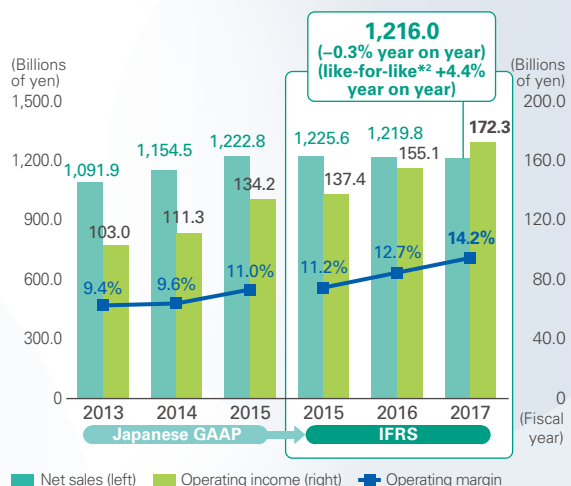
widespread overseas, with e-commerce expansion in China being particularly remarkable.

For household and personal care in Japan, we are launching products for the "small mass" market,<sup>\*1</sup> which is geared toward higher levels of consumer satisfaction, to expand the number of products with high consumer loyalty. We are also increasing our ratio of digital marketing to make our brands better known with younger consumers. In addition, we are stepping up product and marketing proposals that respond to social changes and consumer changes. To realize the targets of K20, we are working to further enhance profitability in Japan, which in turn will help accelerate the pace of our overseas expansion.

We started major reforms in the cosmetics business as well. Although it has taken some time, we are beginning to see the results of these reforms emerge. Also, cosmetics sales have grown particularly well in Asia, contributing to increased profits.

## Trends in Net Sales and Operating Income

<b>Net Sales</b>
▶▶ <b>1,216.0</b> billion yen
(-0.3% year on year / like-for-like*2 +4.4% year on year)
<b>Operating Income</b>
▶▶ <b>172.3</b> billion yen
(+17.2 billion yen year on year)
<b>Operating Margin</b>
▶▶ <b>14.2%</b>
(+1.5 points year on year)



\*2 Like-for-like growth excludes the effects of IFRS 15 adoption, sales system revisions, and currency translations.

Our skin care business and other businesses have continued to expand in Asia due to significant sales growth, starting with sales of baby diapers. Going forward, we will accelerate this expansion through proactive capital investments.

Sales in Europe and the Americas saw mixed results. Despite the strong performance of *Bioré* in the Americas, the skin care business in Europe faced

difficult conditions, resulting in an overall decline in sales levels compared with the previous fiscal year.

To achieve the goals of K20, we will expand the skin care business, centered on the *Bioré* brand, and take on new challenges in the hair care business that fit with today's times.

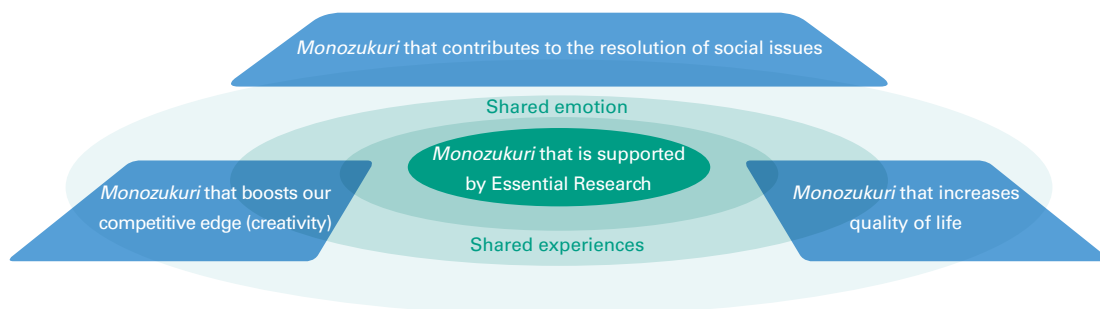
\*1 A term created by Kao that refers to a market that is smaller than the mass market but still has a fairly substantial size

### Initiatives to Bring About Change—Taking On New Challenges without Leaning On Past Successes

With an accurate understanding of social, lifestyle, and market changes, we will take on new challenges without leaning on past successes. In our product development and marketing activities, we will place importance on the value systems of each generation and diverse ways of life, working to offer products that satisfy an even greater number of consumers by providing thorough consumer support. At the same time, not only will we create value, we will also make efforts to communicate that value in an exciting and easy-to-understand fashion in response to the digital society.

In addition, we will pursue borderless product development with our sights set overseas as we move forward with our marketing activities. We will also take on challenges with an even greater sense of speed, responding to changes using a trial-and-error approach founded on *Genba*-ism. Furthermore, we will strive to spur not only R&D innovation but also marketing innovation that gives consideration to the digital society. In these ways, we will create and drive change on our own initiative to revitalize the market and realize the goals of K20.

#### State of *Yoki-Monozukuri* Initiatives



### Involvement in Social Sustainability

We aim to improve satisfaction levels for a wide range of customers, from children to the elderly, through efforts centered on the development of products that resolve social issues and improve quality of life.

To respond better to social issues, we will increase our level of contribution to comfortable lifestyles and an improved society, specifically in areas relating to the environment, health, aging, and hygiene.

In particular, we will promote product development from the perspective of universal design (UD) as an effort to respond to the aging society. We will also step up efforts to develop eco-friendly products. In doing so, we will move forward with *Yoki-Monozukuri* aimed at the creation of a sustainable society.

We will leverage big data analytics to gain a thorough understanding of both qualitative and quantitative information, and will leverage such information in our future business activities. Not only will we achieve growth in the short term, we will also realize growth over the medium-to-long-term through

product development and business creation, forming a deep connection in the lives of consumers and with society as a whole.

#### Aiming to Create Products with High Social Presence and Value



Raku-raku Eco Pack Refill



Product holders with custom designs  
At the Kao Collaboration Fair, which is geared toward the distribution industry, we displayed our customized smart holders that have illustrations printed on their labels. For the printing, we used Kao's water-based pigmented inkjet ink, an eco-friendly ink that allows for high-quality printing on plastic film and other surfaces.

Consumer Products Business

To speed up decision making and further accelerate the pace for global expansion, Kao eliminated the former business segment system in the Consumer Products Business in January 2018 and developed a new operating structure. This new structure comprises the following four businesses.

We forecast net sales of 1,267.0 billion yen (like-for-like +4.1% year on year) in FY2018.

Cosmetics Business

Looking toward 2020

In the Cosmetics Business, we will be keen on the essentials and brighten up brand identity 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 will aim to be the No. 1 cosmetics company in Asia.



We will utilize the reorganization of the Company's operational structure and sales organization as an opportunity to accelerate the pace of the massive reforms we have been carrying out in the Cosmetics Business. While stepping up our operations in Asia, particularly in China, where performance has been solid, we will promote structural reforms in Japan. We will also pursue a shift to offering high-value-added products that leverage our unique technologies. Meanwhile, we will promote and enhance the strong points of each of our major brands in a strategic effort to build a brand portfolio. In addition, starting from FY2018, *Curél* brand skin care products for dry and sensitive skin, which were formerly

part of our Skin Care and Hair Care Business, will be reorganized within the Cosmetics Business. This move will be made in order to operate a new portfolio with the aim of expanding our presence in the market for skin care products that address sensitive skin.

Through the above efforts, we forecast net sales of 273.8 billion yen (like-for-like +2.3% year on year) in the Cosmetics Business in FY2018.



Skin Care and Hair Care Business

Looking toward 2020

In the Skin Care and Hair Care Business, we will make proposals for skin care and hair care that let consumers realize their own unique identities through healthy and beautiful skin and hair. In doing so, we will contribute to the enriched lifestyles of people. Staying one step ahead of the times, we will develop distinctive high-value-added products in the Skin Care and Hair Care Business, which will allow it to help drive our global expansion as a highly profitable business.



With a sharp focus on consumers' awareness toward beauty and changes in lifestyle habits, we will work to invigorate the market by promoting a shift toward offering high-value-added products and making distinctive and attractive proposals unique to the Kao Group. Specifically, we will introduce and develop appealing new products that meet the changing needs of consumers and engage in marketing activities that take into account their changing purchasing habits. We will also promote reforms to our sales methods. In addition, starting from FY2018 *Success* men's hair care products, which were previously part of the Human Health Care Business, have been reorganized within

the Skin Care and Hair Care Business. This move will be made in order to operate a new portfolio with the aim of strengthening our proposals for comprehensive hair care.

Through these efforts, we forecast net sales of 356.2 billion yen (like-for-like +7.1% year on year) in the Skin Care and Hair Care Business in FY2018.





## Human Health Care Business



### Looking toward 2020

In the Human Health Care Business, we will continue to provide high-value-added products and solutions that support the physical and mental health 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.

We will promote product development that focuses on both mental and physical health. For food and beverage products, we will strengthen our efforts to promote the appeal of *Healthya* as a unique FOSHU-type beverage with high added value. We will also promote structural reforms to our food and beverage operations. For sanitary products, we will strive to create products that are gentle on the skin and provide high levels of comfort and peace of mind. In China, we will step up strategic efforts utilizing growing e-commerce sales channels. In Indonesia, we will expand the rollout of baby diapers manufactured locally with the aim of targeting middle-class consumers. In terms of personal

health care products, we will continue to make new proposals unique to the Kao Group through products that help people maintain healthy habits on a daily basis. In doing so, we will endeavor to further improve our brand value.

Through the above efforts, we forecast net sales of 291.0 billion yen (like-for-like +3.5% year on year) in the Human Health Care Business in FY2018.



## Fabric and Home Care Business



### 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.

With an accurate understanding of changing consumer lifestyles, we will develop high-value-added products that offer cleanliness, comfort, and excitement in a wide variety of lifestyle settings, thereby enhancing our brand power. At the same time, we will make proposals that help enrich the lives of people. In addition, we will collaborate with retailers to promote awareness-raising activities that aim to reduce the environmental burden across the entire product lifecycle using refill products for ultra-concentrated liquid laundry detergents, fabric softeners, and household cleaners.

In Asia, we will leverage the technologies of the Kao Group to develop and cultivate products that cater to

local needs. In Indonesia, we will expand the rollout of laundry detergents that target middle-class consumers.

Through these efforts, we forecast net sales of 346.0 billion yen (like-for-like +3.1% year on year) in the Fabric and Home Care Business in FY2018.



# Chemical Business



**With a thorough understanding of consumer needs and concerns, we will strengthen the production of products that help reduce the environmental burden.**

**Masakazu Negoro**

Executive Officer  
President, Chemical Business

## Basic Strategy for Realizing the Targets of K20

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." With this vision, we will expand businesses that showcase our strengths by leveraging our core technologies to their full extent, including our nano surfactant control, polymer design, catalyst design, and enzyme technologies.

To achieve the goals of K20, we have accelerated "green innovation" and "eco technological solutions," the two wheels of the Chemical Business, and are carrying out M&A and capital investments involving technologies that complement and produce synergies with our core technologies. In doing so, we will bring about change and use that change to accelerate the pace of our business growth.

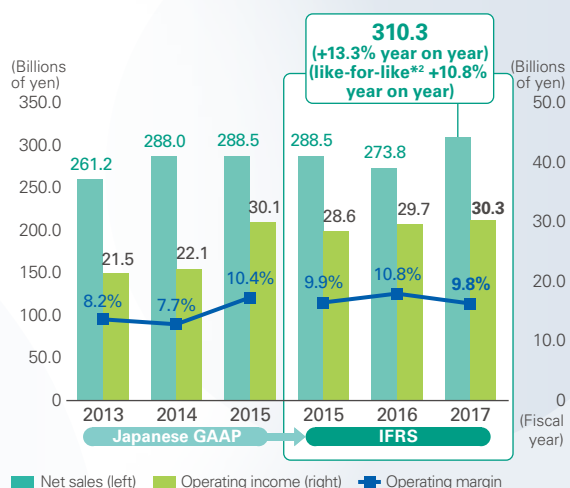
With "green innovation," we aim to develop and manufacture beneficial natural fat and oil derivatives while also working to diversify the natural fats and

oils we use as raw materials. In addition, we aim to expand our business domains by leveraging biorefinery technologies to develop new materials. These products and materials will be sold using the global network of our overseas subsidiaries.

For "eco technological solutions," we aim to ascertain the needs and concerns of consumers from the perspective of reducing the environmental burden. We also aim to take advantage of Kao technologies to provide solutions that help enhance value for our customers through groundbreaking product development. To this end, we will work together with our customers to develop highly customized products.

Under K20, we set a target of raising the ratio of environment-related products in the Chemical Business to 80%. This target encompasses not only product development but also indirect contributions to reducing the environmental burden via our customers. Consideration of the environment is an

## Trends in Net Sales and Operating Income\*1



\*1 Figures in this graph include transactions between segments.  
\*2 Like-for-like growth excludes the effects of IFRS 15 adoption and currency translations.

irreplaceable value for a chemical business that aims to establish a global presence. Going forward, we will bring about industrial change through

### Initiatives to Bring About Change

To further grow our oleo chemicals, we aim to achieve higher levels of differentiation and promote new initiatives under the theme of "green innovation." One such initiative is to further reinforce our production foundation.

We have established a joint venture company with Apical Group Limited, which owns a plantation in Indonesia. Through this joint venture company, we are constructing a production base for fat and oil products (slated to begin operations in 2019) in the country, which will be our third such base in the Southeast Asian region after those in the Philippines and Malaysia.

With this base, we will put in place a comprehensive structure that allows for the stable production of competitive and beneficial natural fat and oil derivatives. We will also promote the development of new materials by leveraging Kao's unique sugar enzymes and biorefinery technology. Through these means, we will undertake efforts that go beyond conventional concepts.

For "eco technological solutions," we will commence the sale of water-based pigmented inkjet ink, which uses our newly developed "pigment nano-dispersion technology." This product will allow for high-quality printing on plastic film and other surfaces using water-based ink. This ink is almost completely free of volatile organic compounds (VOCs) and does not produce a smell, and therefore contributes to significant reductions in environmental and labor burdens.

### Involvement in Social Sustainability

Contributing to the sustainability of the world through eco-friendly product development is the center of our activities in the Chemical Business. For the oleo chemical business, we use mainly renewable plant-based fats and oils, such as oil palm and coconut palm, as raw materials, which helps us limit the use of fossil materials and, in turn, reduce our environmental burden. We also make use of RSPO-certified\*<sup>3</sup> oil and are working to improve our upstream traceability.

For the solution-based businesses of performance chemicals and information materials, we are developing toners that can be melted and fixed at low temperatures, which help reduce the amount of energy consumed when applying toner to paper. In the industrial printing industry, we are offering water-based pigmented inkjet ink with low VOC content. In these ways, we are bolstering product development that helps both our customers and end users reduce their environmental burden.

technological innovation and use that change to enrich the lives of people.

Also, to accelerate the pace of our business expansion through M&A, the U.S.-based Collins Inkjet Corporation (now Kao Collins Inc.) and the Spain-based Chimigraf Holding, S.L. (now Kao Chimigraf) joined the Kao Group in 2017.



Planned area for production base in Indonesia



Plastic film printed using a water-based inkjet printer

As our Chemical Business expands globally, we are fostering relationships with local communities and protecting local environments, particularly in the Southeast Asian countries of the Philippines, Indonesia, and Malaysia. Through these efforts, we are contributing to the sustainability of the world.

\*<sup>3</sup> Roundtable on Sustainable Palm Oil: Certification granted to palm oils that have been produced in consideration of the environment and local communities



Mangrove afforestation

# Non-financial Information (Major Sustainability Indicators)

## Conservation

Materiality	Vision	Items	Results				Targets	Results	Targets	SDGs *7
			2013	2014	2015	2016	2017	2020		
Conservation	Minimize environmental impact from our business activities and contribute to the realization of the One Planet Living vision for environmental sustainability	Reduction rate for CO <sub>2</sub> emissions* <sup>1</sup>								
		Scope 1 and 2	-27%	-28%	-29%	-30%	-31%	-31%	-35%	
		Consumer products, across the lifecycle	-14%	-15%	-17%	-14%	—	-14%	—	12 13
		Consumer products in Japan, across the lifecycle	-18%	-16%	-17%	-16%	—	-15%	-35%	
		Reduction rate for water usage* <sup>1</sup>								
		All Kao Group plants and offices	-33%	-38%	-43%	-42%	-38%	-43%	-40%	
		Consumer products, across the lifecycle	-16%	-18%	-21%	-17%	—	-19%	—	6 12
		Consumer products in Japan, during product use	-22%	-22%	-24%	-22%	—	-24%	-30%	
		Reduction rate for waste production* <sup>1</sup>								
		All Kao Group plants and offices	-28%	-27%	-27%	-25%	-31%	-25%	-33%	12
		Percentage of sales from products displaying the "eco together" logo* <sup>2</sup>	25%	27%	28%	29%	—	29%	—	6 9 12 13
		Procurement of sustainable palm oil* <sup>3</sup>	—	—	PKO* <sup>3</sup> Completed traceability to the mills* <sup>4</sup>	PKO* <sup>3</sup> Completed traceability to the mills* <sup>4</sup>	PO* <sup>3</sup> Traceability to the mills	PO* <sup>3</sup> Completed traceability to the mills to 97%	Traceability to the plantations	15
		Procurement rate for sustainable paper and pulp* <sup>5</sup>	—	—	96%	99%	—	99.8%	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	690	820	910	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)	3 (Total 13)	Total 20	3 12
Number of released GPS safety summaries for chemical products	18 (Total 30)	47 (Total 77)	12 (Total 89)	18 (Total 107)	16 (Total 123)	18 (Total 125)	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 "eco together" certification:

<https://www.kao.com/global/en/sustainability/environment/statement-policy/eco-friendly-products/eco-together-logo/>

\*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



## Community

Materiality	Vision	Items	Results				Targets	Results	Targets	SDGs
			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	2,610	2,310	2,900	2,920	—	3
		Number of participants in the educational programs of hygiene habits* <sup>9</sup> (thousands of people)	—	6,110	7,520	7,610	10,000	8,670	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>	1,303	2,066	2,876	3,585	—	4,666	—	12
		Implementation rate of improvements with Universal Design considerations* <sup>10</sup>	79%	80%	91%	71%	—	63%	—	
		Engage in social activities with local communities to contribute to an improved quality of life								
Partnership with the community		Number of times information was provided to employees regarding volunteer activities	126	79	71	67	70	50	80	17
		Educational activities for external parties provided through transmitted information	100	71	99	59	60	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, the data for 2016 covers Japan and the Americas, and the data for 2017 covers Japan, the Americas and Europe (not including salons and Molton Brown Ltd.).

## Corporate Culture

Materiality	Vision	Items	Results				Targets	Results	Targets	SDGs
			2013	2014	2015	2016	2017	2020		
Integrity	Instillment of <i>Integrity</i> throughout the entire Kao Group	BCG test rate	86.5%	87.2%	96.4%	97.5%	100%	97.1%	100%	16
		Number of serious compliance violations* <sup>11</sup>	0	0	0	0	0	0	0	
		Maximize employee potential through Diversity and Inclusion								
Diversity and Inclusion		Percentage of female managers	27.7%	27.6%	27.5%	25.4%* <sup>12</sup>	—	25.1%	30%* <sup>13</sup>	5
		Percentage of female managers (Japan)	10.5%	10.1%	10.4%	13.1%* <sup>12</sup>	—	14.6%	15%* <sup>13</sup>	5
		Cumulative attendance rate for manager training on diversity and increasing management capabilities	—	—	—	8.2%	100%	55.7%	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	36,259	35,900	8
		Lost time accident frequency rate* <sup>15</sup>	0.74* <sup>16</sup>	0.54	0.61	0.67	Less than 0.26	0.55	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

# Financial Information

## Historical Data

IFRS	(Millions of yen)		
	Dec. 2017	Dec. 2016	Dec. 2015
Years ended December 31, 2017 to 2015			
<b>For the year:</b>			
Economic Value Added (EVA®)	90,394	73,357	58,557
Net sales	1,489,421	1,457,610	1,474,550
Operating income	204,791	185,571	167,318
(% of sales)	13.7	12.7	11.3
Income before income taxes	204,290	183,430	166,038
Net income	148,607	127,889	105,952
Net income attributable to owners of the parent	147,010	126,551	105,196
Net cash flows from operating activities	185,845	184,307	181,672
Net cash flows from investing activities	(96,146)	(88,639)	(74,124)
Free cash flow	89,699	95,668	107,548
Net cash flows from financing activities	(53,244)	(95,043)	(20,773)
Capital expenditures	79,355	89,900	82,848
Depreciation and amortization	54,508	51,116	57,423
Research and development	56,703	54,567	52,699
(% of sales)	3.8	3.7	3.6
Advertising	89,935	97,437	94,745
(% of sales)	6.0	6.7	6.4
<b>At year end:</b>			
Total assets	1,427,375	1,338,309	1,311,064
Equity attributable to owners of the parent	806,381	679,842	680,996
Ratio of equity attributable to owners of the parent to total assets (%)	56.5	50.8	51.9
Number of employees (people)	33,560	33,195	32,282
<b>Per share:</b>			
Basic earnings per share (EPS) (yen)	298.30	253.43	209.82
Annual cash dividends per share (yen)	110.00	94.00	80.00
Number of issued shares including treasury shares at the end of the year (in thousands of shares)	495,000	504,000	504,000
Share price at the end of the year (yen)	7,619	5,541	6,255
<b>Key financial ratios:</b>			
Ratio of net income to equity attributable to owners of the parent (ROE) (%)	19.8	18.6	16.1
Ratio of income before income taxes to total assets (ROA) (%)	14.8	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

Years ended December 31, 2015 to 2012, period ended December 31, 2012, and years ended March 31, 2012 to 2009

### For the year:

Net sales

### Business segments

Beauty Care Business  
Human Health Care Business  
Fabric and Home Care Business  
Consumer Products Business  
Chemical Business  
Eliminations

### Geographic areas

Japan  
Asia  
Asia and Oceania  
Americas  
North America  
Europe  
Eliminations

Operating income  
Net income attributable to owners of the parent

Capital expenditures  
Depreciation and amortization  
Cash flows  
Research and development (% of sales)  
Advertising (% of sales)

### At year end:

Total assets  
Net worth  
Number of employees (people)

### Per share:

Net income per share (EPS) (yen)  
Annual cash dividends per share (yen)  
Net worth (yen)  
Weighted average number of shares outstanding during the period (in thousands of shares)

### Key financial ratios:

Return on sales (%)  
Return on equity (ROE) (%)  
Net worth ratio (%)

(Millions of yen)								
Dec. 2015	Dec. 2014	Dec. 2013	Dec. 2012 (Restated)	Dec. 2012	Mar. 2012	Mar. 2011	Mar. 2010	Mar. 2009
1,471,791	1,401,707	1,315,217	1,220,359	1,012,595	1,216,096	1,186,831	1,184,385	1,276,316
607,692	589,907	570,268	537,814	444,425	537,938	533,514	547,944	588,330
280,723	240,077	210,628	189,614	151,977	181,758	175,761	183,151	191,319
334,416	324,505	311,023	291,988	236,748	285,645	279,008	276,918	274,202
1,222,831	1,154,489	1,091,919	1,019,416	833,150	1,005,341	988,283	1,008,013	1,053,851
288,456	288,022	261,192	236,473	208,071	247,635	231,997	207,834	262,058
(39,496)	(40,804)	(37,894)	(35,530)	(28,626)	(36,880)	(33,449)	(31,462)	(39,593)
1,019,016	997,309	959,405	933,767	720,789	925,339	912,443	918,499	953,369
281,533	244,903	199,655	160,005	159,857	—	—	—	—
—	—	—	—	—	173,588	152,361	131,699	161,927
137,827	124,216	108,599	89,998	89,998	—	—	—	—
—	—	—	—	—	85,397	80,328	79,200	98,999
154,350	152,056	134,168	110,519	110,519	117,005	112,123	111,158	140,623
(120,935)	(116,777)	(86,610)	(73,930)	(68,568)	(85,233)	(70,424)	(56,171)	(78,602)
164,380	133,270	124,656	111,791	101,567	108,590	104,591	94,034	96,800
98,862	79,590	64,764	53,107	52,765	52,435	46,738	40,507	64,463
83,414	68,484	63,687	—	41,929	47,178	49,101	44,868	44,624
73,623	79,660	77,297	—	59,788	79,798	81,380	84,778	87,463
135,394	125,436	109,497	—	80,200	101,960	97,028	95,269	122,441
51,987	51,739	49,650	—	37,493	48,171	45,516	44,911	46,126
3.5	3.7	3.8	—	3.7	4.0	3.8	3.8	3.6
94,496	92,410	86,406	—	67,045	82,209	81,082	86,359	90,258
6.4	6.6	6.6	—	6.6	6.8	6.8	7.3	7.1
1,281,869	1,198,233	1,133,276	—	1,030,347	991,272	1,022,799	1,065,751	1,119,676
675,608	658,232	628,709	—	582,699	538,030	528,895	565,133	545,230
33,026	32,707	33,054	—	33,350	34,069	34,743	34,913	33,745
197.19	156.46	126.03	101.77	101.12	100.46	87.69	75.57	120.25
80.00	70.00	64.00	—	62.00	60.00	58.00	57.00	56.00
1,347.29	1,313.63	1,227.54	—	1,116.61	1,031.08	1,013.05	1,054.31	1,017.19
501,352	508,687	513,880	—	521,824	521,936	532,980	536,009	536,085
6.7	5.7	4.9	4.4	5.2	4.3	3.9	3.4	5.1
14.8	12.4	10.7	9.5	9.4	9.8	8.5	7.3	11.5
52.7	54.9	55.5	—	56.6	54.3	51.7	53.0	48.7

## 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 and transfers.
- 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.

# Corporate Information

## Major Subsidiaries and Associates

(As of December 31, 2017)

Country / Area (Subsidiaries)	Main business activities			Company
Japan	●	●	●	Kao Group Customer Marketing Co., Ltd.
	●			Kanebo Cosmetics 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 (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.
	●	●	●	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 (Malaysia) Sdn. Bhd.
	●			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
Switzerland	●			Kao Switzerland AG
	●			Kanebo Cosmetics (Europe) Ltd.
Spain			●	Kao Chemicals Europe, S.L.
			●	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, 2017)

### 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

7,332

(Number of employees in Kao Group  
consolidated companies: 33,560)

#### Ordinary Shares

Authorized: 1,000,000,000 shares

Issued: 495,000,000 shares

Number of shareholders: 52,986

#### 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.

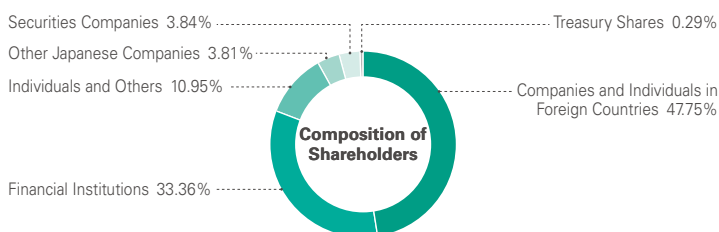
Note: Kao Corporation terminated its sponsored  
ADR program in the U.S. market on April 30, 2018.

### Top 10 Shareholders

Name of Shareholder	Number of Shares (thousand shares)	Shareholding (percentage)
The Master Trust Bank of Japan, Ltd. (Trust Account)	38,370	7.77
Japan Trustee Services Bank, Ltd. (Trust Account)	29,564	5.99
JPMorgan Chase Bank 380055	16,993	3.44
State Street Bank and Trust Company 505223	14,738	2.99
Japan Trustee Services Bank, Ltd. (Trust Account 5)	9,377	1.90
State Street Bank West Client – Treaty 505234	8,913	1.81
Tokio Marine & Nichido Fire Insurance Co., Ltd.	7,598	1.54
Japan Trustee Services Bank, Ltd. (Trust Account 7)	7,538	1.53
Japan Trustee Services Bank, Ltd. (Trust Account 1)	6,965	1.41
Japan Trustee Services Bank, Ltd. (Trust Account 2)	6,873	1.39

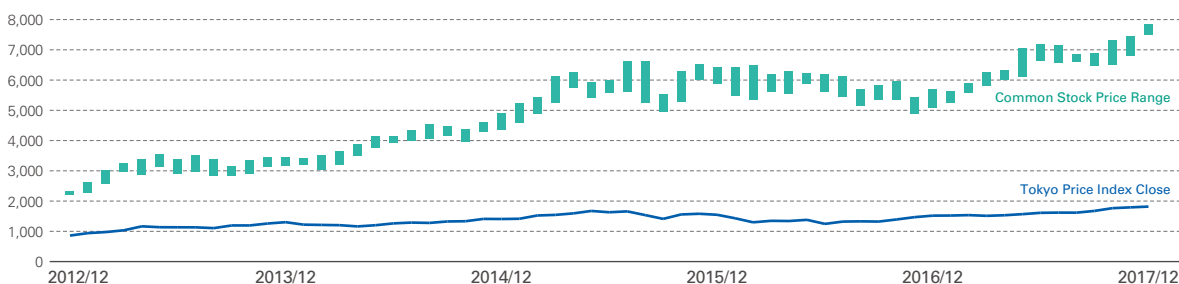
Notes:

- 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.

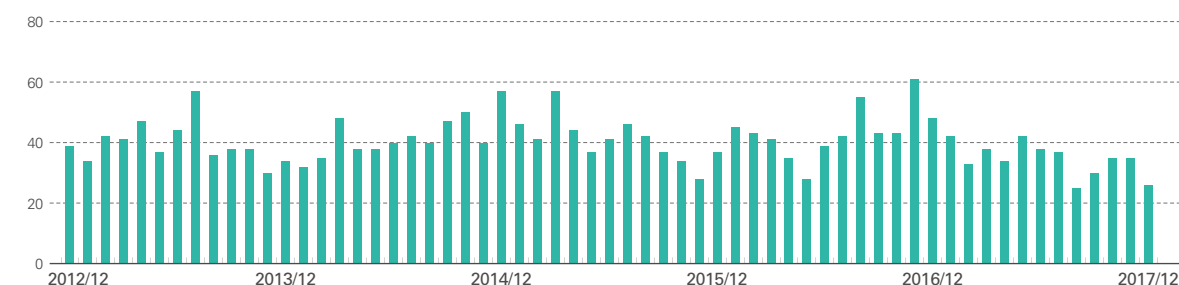


## Share Price Range and Trading Volume (Tokyo Stock Exchange)

### Share Price Range (Yen)



### Monthly Trading Volume (Million shares)



# External Evaluation

## SRI Index and Evaluation

(As of March 23, 2018)

### SRI Index

For the fourth 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/products/indices/FTSE4Good>  
MSCI  
<https://www.msci.com/esg-integration>

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

### Evaluation

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 12th consecutive year.



## Editorial Policy

### Integrated Report

From FY2017, Kao publishes an integrated report. We hope that integrating our presentation of non-financial and 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

FY2017 (from January 1, 2017 to December 31, 2017)

However, certain sections of this report include information on activities from periods prior to FY2017 as well as on expected activities from FY2018 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.

### 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

<https://www.kao.com/global/en>

Investor Relations

<https://www.kao.com/global/en/investor-relations/>

Sustainability

<https://www.kao.com/global/en/sustainability/>

Research and Development

<https://www.kao.com/global/en/research-development/>

Report Concerning Corporate Governance

[https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance\\_001.pdf](https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance_001.pdf)

# KaO

Enriching lives, in harmony with nature.

## Kao Corporation

14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo  
103-8210, Japan

<https://www.kao.com>

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