

Date: Wednesday, November 11, 2020

Agenda: (1) Reasons for Unchanged Forecast / Overview of Markets / Forecast of the fourth Quarter / Looking Back on Eight and a Half Years as President / Expectations for the Kao Group Mid-term Plan 2025 (K25)  
(2) Q&A Session and Dialogue

Speaker: Michitaka Sawada, President and CEO

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**(1) Reasons for Unchanged Forecast / Overview of Markets / Forecast of the Fourth quarter / Looking Back on Eight and a Half Years as President and CEO/ Expectations for the Kao Group Mid-term Plan 2025 (K25)**

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**Reasons Why Forecast was Left Unchanged at Earnings Announcement for Nine Months ended September 2020**

- Sales for the third quarter of fiscal 2020 were substantially below expectations due to an even more severe business environment surrounding the Cosmetics Business. As such, operating income for the third quarter was 45.6 billion yen, hitting the lower range of our revised forecast. This requires us to obtain operating income of approximately 70 billion yen in the fourth quarter to achieve the 190 billion yen forecast for the year. However, since that figure was below the higher range projected at the end of the first half of the year, we left our forecast unchanged.
- Although it is anticipated that our business environment will further deteriorate in the fourth quarter due to the slow recovery of the Cosmetics Business in Japan and a rise in the number of people newly infected with COVID-19 in the Americas and Europe, we will cover such a loss by growing earnings from the Consumer Products Business excluding the Cosmetics Business and the Chemical Business and reducing costs.

**Overview of Markets**

Japan

- The household and personal care products market declined in September compared to the same month in 2019, when there was last-minute demand ahead of an increase in the consumption tax rate in October 2019 resulting in a higher comparison base, but it grew more than in the same month in 2018 according to POS data from retail outlets (SRI). However, our impression is that the growth rate slightly slowed in October.
- The cosmetics market is recovering very slowly, even slower than our assumption as of the end of the third quarter. We anticipate that the forecast for the fourth quarter made at the end of September will deteriorate even further compared to the same period in 2018 due to an increase in the number of COVID-19 infections.
- The hand soap and hand sanitizer markets are both gradually declining on a purchase amount basis after the peak of the April-May special demand, but they still remain at high levels.
- The sanitary napkins market continues to decrease year on year following the February-March special demand. We consider that this is partly due to even longer hours of staying at home causing the frequency of sanitary napkin replacement to decrease as an impact of the infection prevention measures, as well as due to hoarded stock at home.

Kao China

- Demand for sanitary napkins is steadily growing.
- Sales in the Cosmetics Business remain firm, mainly for the *Curél* derma care brand and *freepius*, which is hypoallergenic and contains Japanese and Chinese botanical extracts. The Business is also showing strong sales in our online Singles' Day campaign ("W11") at the present time (November 11).

**Forecast of the Fourth Quarter**

- Consumer Products Business
    - The Cosmetics Business in Japan, where the market has been slow to recover, will continue to face a difficult situation. We will offset the loss of sales in Japan by growing sales at Kao China.
    - Meanwhile, although sales in the businesses other than the Cosmetics Business are firm, we are a little concerned about the overall growth rate of sales, which has started to decline. We
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will pay close attention to how the sales growth rate of hygiene-related products will change as a result of the expected resurgence in the spread of COVID-19 in the future.

- Under these circumstances, we will endeavor to increase sales as much as possible, with new products and sales promotion campaigns for them in the fourth quarter. Meanwhile, the sales growth rate in Japan compared to in the same period a year earlier will be greater than in the third quarter due to the weak comparison base with the impact of the drop in sales following the last-minute demand that preceded the consumption tax rate increase.
- The Chemical Business is emerging from the most difficult period.
  - In Kao China, demand is on a recovery trend.
  - Oleo chemicals and performance chemicals are recovering slowly.
- For our business outside Japan, Kao China is performing well. In other Asian countries and regions, our business is still in a severe situation.
- In the Americas and Europe, despite the ongoing recovery trend, a lockdown has started again in Europe due to the rise in the number of newly infected people. We are concerned about whether there will be a major impact on the business for hair salons, in particular.

### **Looking Back Eight and a Half Years**

- The Cosmetics Business: I wanted to launch structural reforms earlier, but I placed top priority on dealing with the problem that occurred in 2013 that led to our voluntary recall. Now, I would like to speed up the ongoing structural reforms.
- The baby diapers business: By going back to basics and putting all our efforts to it, we were able to increase our share in Japan, which subsequently led to an expansion outside Japan. As a result, we were able to achieve sales growth for five years from 2012. In this period, however, we faced issues such as the outflow of our products from stores in Japan to outside the country by resellers. We had to deal with this issue and could not take drastic action, which created the current tough circumstances. We will advance the rebuilding of this business from 2021 by launching new products, mainly in Kao China, and making other efforts.
- The Consumer Products Business in the Americas and Europe: We must aim to grow this business to be more than twice as large as its current size. With only the existing beauty care business, our Consumer Products Business will grow to be only a certain size. We must grow this business substantially by launching new hygiene-related products as the start.
- Going forward, it will be important that ESG and our business are linked to each other. In addition, in order to leverage our R&D capabilities, we must make sure that our technologies will lead to an increase in our sales. We must open-up the output for making use of our technologies without our insistence on doing everything in-house and sometimes collaborating with other companies, while utilizing the essence of the way unique to Kao.

### **Expectations for K25**

- In December, Kao's next president and CEO Yoshihiro Hasebe will announce the Kao Group's new Mid-term Plan K25.
- Creating new businesses is the key for the Kao Group to make a great leap forward. So far, our stance has been to "protect the livelihood of people," but I hope we will take a step further and explore new businesses by widening the business areas in the direction of "save lives, protect people" in the way unique to Kao.
- For the creation of new businesses, the important points are enhancing existing businesses, changing employees' mindset, evolving Economic Value Added (EVA) management, constructing the latest technologies including digital transformation, fully utilizing such technologies, enhancing governance, and so on.
- I have said to Mr. Hasebe as follows:  
"You do not need to adhere to the way I used to do business. If only you hold firm to our corporate philosophy, "The Kao Way," you may deny anything else other than that. Instead of being swayed by short-term sales and profit growth, I expect you to create the presence of the Kao Group for success in the future. And I hope that you will lead us to successfully gaining the trust of our stakeholders."  
I'm sure he will definitely embark on a major course of action.

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**(2) Summary of Q&A Session and Dialogue**

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**1) What are your thoughts about Kao China's future efforts for the adult incontinence product business?**

People in the market where Kao China is developing its business are also aging markedly. As such, there is no doubt that the adult incontinence product market is promising. However, there are substantial differences in the market environment and in utilization compared to Japan, so we are currently conducting research. Upon rolling out the products, we will incorporate an ESG perspective and produce products locally with less of an impact on the environment.

**Recently, competition for baby diapers has been intensifying, as local manufacturers are on the offensive. How do you see the future of the adult incontinence product market?**

For baby diapers, many of the local manufacturers are focusing on developing technologies for tape-type products, and global brands hold an advantageous position in terms of pants-type technologies. Since the technologies for pants-type baby diapers are applied to adult incontinence products, we expect manufacturers with superior technologies for such diapers to have an advantage. In addition, developing environmentally conscious products requires considerable technological capabilities. We will work on this business by utilizing the R&D capabilities that Kao has accumulated up to the present time so that we will be able to contribute to society.

**2) You have constantly been calling for change, but the organization and employees have still yet to change greatly. What are the issues causing this situation?**

There are the following two issues:

1. Employees still have a low awareness of the need for change. Unless we have the will to work for change by completely denying our previous experiences, we will not be able to respond to major changes in the world. We know what we should do but have been unable to put it into practice.
2. For our technologies, we insist on doing everything in-house. Instead of utilizing technologies developed in-house only for our products, we must be determined enough to change the world by using them in collaboration with a diverse range of companies.

**I think it's not easy to change the mindset of the employees, so how will you work on this?**

Some of the employees understand the need for change. I think it is also necessary that management encourage employees to engage in such change more actively. The number of employees working remotely is rising due to the COVID-19 pandemic, and we are having many discussions about change in such a setting, which is serving as a trigger to accelerate the change in the mindset inside the company.

**3) Although Kao has quite advanced technologies, I think it is taking time to advance overseas business expansion. What are the issues for the future acceleration of such development? Do you also have in mind M&A as a solution for it?**

Kao has been developing businesses with a focus on personal care products that protect the livelihood of people. However, due to differences in people's living environments, the utilization of products, and the content of related laws and regulations depending on the country and region, it is difficult in many cases to roll out products intended for Japanese people as they are to countries and regions outside of Japan. In the future, we are planning on establishing "save lives, protect people" to be the new core of our business. This direction is the same globally, so we will work on product development from a global perspective from the initial stage. For example, if we can develop a formula in accordance with the strictest laws and regulations in the world, we will be able to more easily increase the speed of global development. We will also actively consider alliances or M&A with companies who have

knowledge to that end.

**Do you plan to strengthen R&D based outside of Japan or collaborate with the Chemical Business, the most globalized business segment in Kao, in order to accelerate developments outside of Japan?**

For the development of personal care products, it is better to establish an R&D base for each market. However, for products that we will be developing in the future from a global perspective to "safeguard people's lives," we will conduct research and development at locations where we can expect results to be produced most efficiently.

**4) You mentioned that you will strengthen the development of hygiene-related products in the Americas and Europe in the future also, and that you will develop business in the new direction of "save lives, protect people." Do you plan to take drastic measures taking into consideration a withdrawal from the beauty care related businesses, including the Cosmetics Business and Skin Care and Hair Care Business ("beauty care business") as well? If you continue with the beauty care business, what sorts of breakthroughs do you think will be needed to increase sales?**

We are not thinking of withdrawing from the beauty care business in the Americas and Europe. Although we are not able to grow sales at present due to the impact of the COVID-19 pandemic, we have already prepared the foundation on which to grow the business by conducting structural reforms in the two years from 2018. I believe we will be able to leverage the strength of the Kao Group by incorporating health care elements into the beauty care business. In addition, we will consider developing products in categories that we have previously been developing in Asia, such as diapers and sanitary napkins other than hygiene-related products, into the markets in the Americas and Europe by strengthening the aspect of an ESG perspective.

**Since the markets in the Americas and Europe are mature and have not much room for growth, Kao continues to struggle there. Isn't it more efficient to concentrate your efforts on the growth markets of Asia?**

The Americas and Europe are more attuned to ESG. We will start to develop business that is linked to ESG from there and then drive business expansion in Japan and other Asian countries as part of a series of actions.

**5) In the latter half of the current Mid-term Plan K20, the loss of momentum in the baby diaper business had a significant impact on results, but I think you might have been able to keep down this impact if you had been flexible in the sales structure at Kao China without your insistence on doing everything in-house. How do you consider this point and what are your thoughts about reviewing the future sales strategy?**

Kao China has had sales tie-ups with local companies in the past, while it currently uses a strategy of focusing on e-commerce. We change initiatives outside Japan in this way, but in Japan where our organization is very big, it is difficult to respond flexibly. However, we are aware of the need for reforms and have been having many discussions on this with top management of Kao Group Customer Marketing Co., Ltd., which is our sales company, about what form it should take in the future. I believe that strengthening the communication of value to consumers is also important.

**6) Kao China plans to launch super premium baby diapers in 2021. Do you expect to generate a large profit in this category, going forward?**

Since the selling prices of baby diapers are falling in this market, the operating margin at Kao China is not high. To avoid selling on a large scale with small profit, manufacturers there launch value-added products onto the market. If we are able to offer products that can convince customers of their high cost performance, I believe it is possible to stably

generate an operating margin of over 10%. In addition to pursuing functional value for differentiation by leveraging Kao's strength, we will work to raise added value by incorporating an ESG perspective.

**7) Kao must be collecting and analyzing a wealth of data, but I think that it is taking time to ascertain the actual situation and take action. What is your view on this issue?**

Because we have been following the way we used to do business for a long time, despite the major changes in the market environment including the emergence of e-commerce, there are some discrepancies with the actual behaviors of consumers. Since we cannot set up a management policy when there are gaps between the understanding of management and the reality on-site, we must change how we view and collect market data. Currently, we are having discussions within the company toward making improvements.

**I believe you have been analyzing big data for several years. Do you think the further strengthening of such an activity will be effective even for product development?**

We have been collecting and analyzing unique data based on Kao's advanced technological strategy. I think it would be interesting to further activate the Japanese market and build a platform that is jointly used with our competitors as part of our strengthening of globalization in the future.

**8) My impression is that when developing business outside of Japan, Kao often launches products after the market has been activated. Can we expect you to speed- this up in the future?**

Kao has been creating markets or taking an approach that is different from those of other companies in activating existing markets. I don't think that we are following others, but I am aware that we have not been able to catch up in terms of the speed of change in the market for some aspects. We will work to reduce the time for product development as much as possible while adopting our practices to conform with different laws and regulations, depending on the country and region.

**9) What progress have you made for the Cosmetics Business growth strategies announced in 2018? What issues do you have at present and what are the measures for them?**

We have been able to steadily advance the strategies, including reviewing fixed costs, reducing returned goods, and concentrating brands. Currently, we are working to strengthen e-commerce, in which we have had an issue of delayed construction of our own direct-to-consumer (D2C) site, and we have been preparing for full-scale operations at the earliest possible time during the next year. Since the structure of Kao's Cosmetics Business itself is the point that is obstructing its growth, we will advance structural reforms with a sense of speed.

**What is the structure of the Cosmetics Business that is obstructing its growth?**

Since 2015, we have been implementing measures for issues, including integrating operations with Kanebo Cosmetics Inc., strengthening global development, breaking away from a sales mix that is dependent on the mid-price range, changing the fixed cost structure, concentrating brands, and strengthening e-commerce. But we had the problem in 2013 that led to the voluntary recall and I dealt with it as a top priority, which forced us to postpone the structural reforms. Our employees also lacked the awareness for change.

**10) The cosmetics market in Japan also did not perform well in October. What is your plan for turning the business around in the future?**

We will work on the assumption that the COVID-19 pandemic will be prolonged. We intend to make offerings that our competitors cannot make, such as make-up products that make users look beautiful even when wearing a mask, and the use of skin care products for skin problems

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due to wearing a mask. For example, with Kao's unique sebum RNA monitoring technology, we can make offerings unique to Kao, in which beauty is seen from the entire body. In order to advance this initiative, it is also important to ensure that value is communicated.

**When do you expect earnings to recover to the situation before the COVID-19 pandemic?**

It is difficult to make such a projection, but some say it will take nearly three years. I hope we will be able to recover to the former situation a little earlier than that, but it will not be easy. Under the present conditions, we will accelerate our efforts for structural reforms.

**11) Kao successfully strengthened baby diapers and cosmetics, for which the stock market had a negative perception. What were the success factors?**

There were two success factors:

1. Products into which we incorporated technologies that we developed with conviction were well received by consumers. This looks simple but is difficult to realize, and this was the greatest factor. The reliability and a sense of security for Kao developed by our former employees through their efforts matched these products in a very good way, so we were able to gain huge support.
2. Excellent cost management. The effective cost controls raised the operating margin of the Cosmetics Business for the last year to 13%.

**I believe that there are four types of success factors; looking at consumers, knowing the distribution, understanding yourself, and observing competitors. In what areas do you think Kao excels?**

I believe Kao's strength lies in not observing our competitors. If you look at competitors too closely, you will try to create products that surpass those of the competitors, which may be far from what consumers need, resulting in failure. It is important to refine our own technologies and deepen research into consumer insights.

**12) I see the contraction of the domestic cosmetics market is caused by fewer opportunities due to less frequent visits to stores amid the COVID-19 pandemic or other reasons. Shipments are slow because it's taking time for the purchasing cycle to be restored, despite cosmetic products being consumables. How do you view the causes of this situation?**

Consumers in Japan tend to act after looking at what people surrounding them are doing, so I think many of them are reluctant to visit stores unless they see other customers going there. Although people's movements are getting back to normal due to the Japanese government's GoTo Travel campaign to encourage domestic tourism with discounts, a major change has not yet been seen in cosmetics stores. But the use volume of cosmetics is falling due to people wearing a mask at all times and also as there is the tendency for consumers to buy alternative products, rather than ones they used to use, via e-commerce. I feel that we need to appeal to the mindset of such consumers.

**13) When would you see the results of your efforts to overcome the issues in the Cosmetics Business in Japan?**

Although they are a little behind schedule due to the impact of the COVID-19 pandemic, our efforts to strengthen e-commerce, lower the ratio of make-up products in the sales mix, and concentrate brands are all progressing as planned. We have positioned the year 2021 as the year to determine the direction for fixed cost reductions, and therefore the results will appear in the figures in 2022. If people gradually start taking off their masks during this period, we expect the situation to change drastically. The expansion of the product line using Fine Fiber technology and the development of products commercializing sebum RNA monitoring technology are also underway according to plan. We intend to recover to the level of operating income of 41.4 billion yen and operating margin of 13.7% that we achieved in our fiscal 2019 results at the earliest possible time in fiscal 2023 or later.

**14) Despite its solid financial condition and EVA management globally, we did not hear key words that indicate you are aware of financial strategy or corporate value in the earnings conference and other meetings. Going forward, I think you should communicate with investors by presenting KPIs. What are your thoughts on this point?**

Although Kao has the ability to generate cash, it is unable to spend cash in the best way. Continuously increase cash dividends, capital investment for growth, and M&A are important, but I feel these activities may be seen as one-offs, so I believe we must show a grand design. In the course of future collaborations with various companies, M&A may be one option, but I think we need to expand the framework for companies to invest in based on an understanding of the EVA concept. Previously, we have not been able to clearly present what we should do and what we should stop doing in our business framework. I will hand this matter over to the next president and CEO, Mr. Hasebe.

**15) In today's explanation, you mentioned "We will rebuild Kao China's baby diaper business in the three years from 2021." What is your plan for the future to recover the investment? Why is it "three years?"**

I believe we must make quite a bold decision. So far, we have been putting in a lot of time and effort to fulfill supply responsibility, but in the future, we will not be able to make a profit by becoming involved in price competition unless we realize products whose effectiveness is recognized by consumers as differentiating them from the products of others and thereby enhancing our brand equity. There are different approaches to this issue and some companies use a method of selling five to six types of products. Kao aims to compete on its technological strength by incorporating an ESG perspective into products and making other efforts. The "three years" represents the period during which a baby uses diapers, as well as the development period for the next product.

**16) You made a change of course toward ESG management and also announced technology innovation two years ago, which made me expect that Kao would change in the future. However, the resulting financial outcome was not seen this year due to the impact of the COVID-19 pandemic. Mr. Hasebe will become president and CEO in January next year, but can we expect that these initiatives will be taken over by him? Is there a need to change your corporate culture?**

I have talked with Mr. Hasebe on many matters and I'm convinced that he will definitely meet my expectations. Previously, we have only used technologies that we developed ourselves for our own products. As such, despite many excellent technologies, we have not been able to fully utilize them. Going forward, we will collaborate with companies in different industries to fully utilize our technologies. Widening the strategy for the output of technologies in this way will eventually allow us to greatly contribute to society. This will also lead to the direction of the Kao Group's new businesses, as well as to the enhancing of our financial position.

**17) The Americas and Europe markets are difficult markets for Japanese companies and they cannot generate profit easily in them. You have said that Kao will strengthen the development of hygiene-related products in the Americas and Europe. Do you have a good chance of succeeding for this? What is your plan for initiatives to be implemented in order to generate profit?**

One of the reasons why we have had difficulty in growing the beauty care business in the Americas and Europe is because we gave too much importance to product development in order to suit the skin and hair types of consumers in each country and region. Another major reason is that some products that sell well in Japan cannot be exported due to laws and regulations in each country and region. However, when compared to such personal care products, hygiene-related products have many things in common among countries and regions, and so developing these products in accordance with the strictest regulations will allow us to more easily comply with the laws and regulations of other countries and regions.

**18) What measures did you implement while in charge of human capital development last year?**

I focused on motivating our employees and making best use of their inclusion and diversity. The operations of the Kao Group depended largely on past conventions and I wanted to change this. So I decided to handle and cut deep into this problem myself as the president and CEO. Although I had many discussions and made various efforts, the extent of the change that I have made so far only amounts to around 50%.

The next Mid-term Plan K25 that is being prepared chiefly by Mr. Hasebe, includes further reforms. It may take a while before the change becomes prevalent among our employees, but I have high expectations.

**19) When you summarized your past eight and a half years as president and CEO, you mentioned that there is a sense of crisis about the cosmetics and baby diapers businesses, as well as about operations in the Americas and Europe. I expect that the next Mid-term Plan will reflect that aspect, but how will Kao raise employee awareness on this matter?**

Ever since I assumed the position of president and CEO eight and a half years ago, I have visited subsidiaries globally and have repeatedly had direct discussions with our employees, through which I came to realize that they have a sound sense of crisis. Even so, there are many employees struggling about how to deal with the crisis.

As such, management needs to provide more specific directions. I am confident that the Kao Group will grow significantly as long as we continue to tackle various challenges and gain experience.

**Possibly there are many employees that are complacent, as Kao is a leading company in Japan. What is needed to develop a global perspective?**

There are few employees that are complacent. Rather, they think that they can do more and I appreciate their enthusiasm. As there are both easy tasks that they can fulfill without any problem and tough tasks that they stumble on and struggle to finish, they are in no way complacent. Even employees in charge of operations in Japan consider operations outside Japan. I want to help them foster a better understanding by actively providing them with opportunities to find out more about operations outside Japan.

**20) In today's explanation, you said, "The Cosmetics Business will pursue holistic aspects and evidence." However, you previously said, "Joining Kanebo Cosmetics into the Kao Group, the Cosmetics Business will obtain not only holistic aspects, but also strengthen the brand portfolio, and thereby pursue an emotional images." Did the direction change?**

We previously kept Sofina and Kanebo Cosmetics apart, but we have now established strategies for each brand within one business. Going forward, we will further pursue the establishment of each brand image in order to prevail in the competition with other competitors' many excellent brands.

**21) What were the reasoning and the process behind selecting Mr. Hasebe to be the next President and CEO? Wasn't hiring an outside CEO a viable option to transform the corporate culture?**

Kao has a system in which Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members that consists solely of outside directors and Audit & Supervisory Board Members examines and discusses the aptitudes of candidates, including the CEO and other members, and offers opinions to the Board of Directors. Mr. Hasebe was selected from among several candidates. I was also asked for an opinion and I recommended him. There are four reasons for this:

- He is aware of the importance of "The Kao Way," our corporate philosophy that should be immutable.



- He excels at utilizing technologies in business to create new business opportunities. Not only is he a researcher, but he can also offer new directions and take action in his own way.
- He is highly capable of motivating other people.
- He has good fortune. He can venture forward to seek good fortune and to have good fortune.

**22) You achieved ever-growing sales and operating income that exceeded the consensus for five years after you assumed the position of president and CEO. However, stock prices peaked after the ESG Division was established in 2018. Profit and performance in the past three years fell below the consensus, which was perhaps due to ESG efforts, such as conducting responsible raw material procurement. Is it difficult to achieve financial performance and ESG at the same time?**

ESG and financial performance can be achieved at the same time. We have been in a tough situation for the past three years, but not because we focused on ESG.

Kao used to use figures lower than budgets as announced forecasts. However, we set forth figures much higher than budgets during K20, which was initiated four years ago. In addition, we increased capital expenditure from 40-50 billion yen to the level of 100 billion yen. The increase in depreciation expenses means that the same sales result in less profit. Our sales have not been increasing very much and the labor costs related to equipment operations have been rising. Due to cost structure with the increase in depreciation expenses and labor costs, profit drops by 10 billion yen or more per year. What I could not foresee was the slow sales of baby diapers, which I thought would drive financial performance by continuing to improve their level until 2020. These are the reasons why we have been in a tough situation for the past three years, despite the increased operating margin of the Cosmetics Business. In a few years from now, depreciation expenses will gradually decline. In addition, we will work to generate new possibilities for baby diapers.

**ESG is important in the mid- to long-term. However, is it still important in the short term?**

In the mid- to long-term, ESG has effects when corporate value increases. In the short-term, I think that ESG can be linked to business if ESG driven products are receiving support by consumers. We are now actively working to develop products that can achieve this. I do not think that ESG should simply be worked on for a five-to-ten-year period, and we want to set a good precedent.

**23) In your previous comment on the COVID-19 crisis, you said, "We have pursued selection and concentration. Going forward, we have to incorporate the perspective of dispersion, even if it might be inefficient." What efforts is Kao making for this?**

Dispersion means utilizing diversity, in other words. Consumer needs are becoming diverse. As for work styles as well, utilizing diversity is a key point. However, addressing individual needs is costly. As such, we have to change Kao into being a company that can control costs while utilizing diversity. We have to make clear efforts to keep beneficial inefficiencies and remove detrimental inefficiencies.

**24) If you were owner and president of Kao, what differences would there be?**

If I were owner and president of the company, I would start by creating a grand design for the next 30 years or a grand design to pass the torch every six-to-ten years. The actual me and the present Kao are here thanks to the efforts made by former CEOs and employees. I expect that the efforts that I have made in the past eight and a half years will produce results within the next five-to-six years. Because of this thinking, I have worked hard to maximize the assets that I inherited from former CEOs and employees and to create the next assets. A company not run by its owner grows if the CEO can pass the torch in an optimal manner. A failure to do so might affect the next two or more CEOs as they try to bring back the company

from the brink of failure. In that sense, it is difficult to pass the torch on a short-term basis, but it is also difficult to create a grand design for the next 30 years. In either case, there are advantages and disadvantages.

Note

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