

Dates/times: Wednesday, May 24, 2017 9:00-11:10 (12 sell-side analysts)  
 Tuesday, May 30, 2017 13:00-15:00 (12 institutional investors)

Agenda: (1) Market conditions / Key points for 2017 / Overview of 1Q FY2017 results, etc. 20 minutes  
 (2) Q&A session and opinion exchange 95 minutes

Speaker: Michitaka Sawada, President and CEO  
 Moderator: Mitsuhiro Watanabe, Vice President, Investor Relations

**(1) Market conditions / Key points for 2017 / Overview of 1Q FY2017 results, etc.**

Mr. Sawada

**Conditions in the Household and Personal Care Products and Cosmetics Markets in Japan**

- The household and personal care products and cosmetics markets in Japan from January to April 2017 were largely unchanged from the same period a year earlier, according to SRI.
- SRI is retail store point of sales (POS) data on 4,000 stores nationwide, but in looking at the household and personal care products market in 2016, it does not cover e-commerce, which accounts for 12.7% in SCI consumer purchasing data. In SCI, channels covered by SRI grew by 2% and the e-commerce channel grew by 13% compared with the same period a year earlier.
- In the cosmetics market, according to SLI data on purchasing by female consumers, the portion covered by SRI was 30.4% and grew 1% compared with the same period a year earlier. E-commerce, which accounted for 19.7%, grew 3% compared with the same period a year earlier.
- The proportion of e-commerce is rising.

Source: SRI POS data, SCI and SLI surveys based on Kao's definition by INTAGE Inc.

**Key Points for Achieving the Forecast of Consolidated Operating Results for FY2017**

- Further deepen the post-deflation growth model and maximize assets through a bottom up approach. As the business environment is changing dramatically, conduct an entire review of our procedures to date through a top down approach.
- Put the Human Health Care Business back on track for profitable growth
- Major reform of cosmetics business and improvement of its profit margin
- Expansion of sales in the Fabric and Home Care Business at an operating margin of 20% or higher
- Appropriately pass on costs in the Chemical Business and expand high-value-added products
- Improve profit margin and expand sales in the Consumer Products Business in Asia (particularly in China and Indonesia)
- Improve profit margin of the Consumer Products Business in the Americas and Europe through structural reform
- Step up M&A (main targets are B-to-B companies, such as companies in the chemical and professional-use products businesses, and hair salon products companies)

**Overview of Consolidated Results of 1Q FY2017**

- In the 1Q, operating income increased by 4.2 billion yen compared with the same period a year earlier. However, the full-year operating income forecast aims high, for a year-on-year increase of 14.4 billion yen to 200.0 billion yen. To prepare for the second half of the year when the competitive environment will be severe, we want to exceed the previous year's results as much as possible during the first half.
- In the Human Health Care Business, baby diapers and *MegRhythm* steam thermo sheets sold strongly, exceeding the plan.
- The Beauty Care Business fell slightly short of the plan. Mass skin care performed well. In the United States, *Bioré* has the number-two market share after *Neutrogena* and in hair care, *John Frieda* struggled. In the second half, we are planning measures for cosmetics, aiming for 6% growth. For Sofina, we are planning to strengthen the linkage between the strong-selling *SOFINA iP* and basic skin care lines.

- The Fabric and Home Care Business progressed largely as planned. Performance in Japan was good. In Thailand, Procter and Gamble entered the laundry detergent market, intensifying competition.
- Results of the Chemical Business exceeded the plan. We were able to pass on raw material price increases through product selling price adjustments. Recently, raw material prices have dropped sharply, so we expect pressure to cut prices in the second half. We are promoting high-value-added products that are not affected by raw material prices.

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## (2) Summary of Q&A Session and Opinion Exchange

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Respondent: Mr. Sawada

**1. Unilever is taking on Procter and Gamble in the grooming category in the United States. Isn't now the time for Kao to take on Procter and Gamble in the United States with baby diapers, which are not in competition with Unilever's business? For M&A targets, why are you not considering sanitary products companies in addition to chemical companies, professional-use products companies and hair salon products companies? Why do you need M&A in hair salon products? What are your thoughts on how Kao will approach the Americas and Europe?**

We are discussing the approach for the Americas and Europe with our local executives. So far, the brands we have acquired through M&A have not grown, with some exceptions. We will start again from scratch. We are making preparations to exceed 200 billion yen in sales and an operating margin of 10% in the Consumer Products business in the Americas and Europe.

To get the most from our hair care assets, it is important that they be used at salons. Hairdressers and other professionals have techniques and knowledge that yield useful findings. Having them use our assets uncovers new possibilities. This is a major benefit that in turn can be used in premium mass shampoos and conditioners, hair styling agents and hair coloring.

**Can't you do that with your existing *Goldwell* salon brand, rather than M&A of a hair salon-related business?**

Not sufficiently.

To compete with Procter and Gamble, Unilever and L'Oreal, we will use a premium niche strategy to carve out a small, precise sector and then broaden our presence, mainly in the Americas and Europe. We will not succeed using the same methods we have used in Japan.

**Won't you have to make a move this year to achieve an operating margin of 10% in the Consumer Products business in the Americas and Europe by 2020?**

We are working to efficiently maximize our assets through structural reform and discussing ideas for expanding sales for growth.

**With the success of *Bioré* in the United States, do you now see a strategic approach for the Americas and Europe?**

In the United States, *Bioré* does not have the same brand power as it does in Japan, and we were not able to sell it by doing the same things we did in Japan. After reviewing the brand's assets from the consumer's viewpoint with our local *Bioré* brand team, we specialized in pore cleansing. We also changed the container to black to make it stand out. We gained a share of over 10% of the facial cleanser market. This tells us that even when the same brand is backed by technology, you still must incorporate the consumer's viewpoint. Our success comes from narrowing our focus to carve out a precise niche, then broadening our presence in the market.

**The profitability of hair care is low in the Americas and Europe. To raise the profit margin of the Kao Group as a whole over the medium to long term, is cutting back on your low-profitability businesses an option?**

Our hair care business in the Americas and Europe consists only of professional hair care products for salons and *John Frieda* and *Guhl* in the premium mass market. We want to rebuild

the *John Frieda* brand somehow. We are also wondering whether renewing the *John Frieda* brand alone is enough. We have started a rollout of *Bioré* in the mass skin care market in Europe, and we intend to strengthen hair care along with mass skin care.

**In general, the profitability of hair care is not very high anywhere in the world, and competition is particularly severe in the mass category. Will profitability rise if your approach goes well?**

In shampoos and conditioners, achieving high profitability is difficult because it is necessary to offer many SKUs, such as a variety of fragrances, and large marketing expenditures are required. We want overall growth, including in categories other than shampoos and conditioners.

**2. Have you changed your plan for improving the profit margin of cosmetics from 2019 onward due to upfront investments in marketing?**

We have not changed our plan. We are aiming for net sales of 300 billion yen and an operating margin of 10% in 2020. Kao launched *SOFINA iP* in November 2015 and Kanebo Cosmetics launched its global *KANEBO* brand in September 2016. We intend to further strengthen skin care from the second half of 2017 onward. We will make upfront investments until 2018 and aim to substantially improve the profit margin thereafter.

**In 1Q FY2017, cosmetics profits in Japan decreased compared with the same period a year earlier. How are things going?**

Structurally, 1Q sales and income were small in cosmetics, and profitability was lower mainly due to business centered on mid-priced products and high personnel expenses. Competitors with high profit margins have solid sales for high-priced skin care products, including basic skin care cosmetics. Survival in the cosmetics business requires cultivating aspirational brands with a distinctive image for high-priced skin care products. Another way may be to launch a new brand. We are also discussing the possibility of Asian and Japanese sales of *SENSAI*, a high-priced brand that Kanebo Cosmetics sells in Europe.

**So, you're saying that high-priced skin care is the direction that cosmetics should take?**

Exactly. We will reform skin care using our R&D assets.

**I suppose your R&D assets are sufficient, but ultimately a feeling of luxury is essential for cosmetics. Don't you need human resources such as creators who can produce that feeling?**

Things have been going well using creators for *SUQQU* and *RMK* brands. We want to establish a luxury brand for basic skin care cosmetics.

**What are your thoughts on makeup?**

In makeup, not only high-priced products but also self-selection brands are important. Among self-selection brands, *KATE* and *media* are doing well. On the other hand, small and medium-sized manufacturers are growing significantly, although their market share is small. *RMK* performed well among high-priced products. For mid-priced products, we have to link makeup to skin care. We need to think about measures in each price range.

**You are ambitious in cosmetics, with a plan to increase sales in 2017 by 6% over the previous year. What kind of measures do you have planned for the second half?**

I cannot disclose the details yet, but we have plans for a renewal of skin care. We plan on 6% year-on-year growth in cosmetics, but that hurdle has been lowered a bit due to an allowance for returns on *Aube* makeup products in 2016. Our ability to carry out a major reform of skin care according to plan is more important than the numerical target of 6%. The targets we are aiming for are those for K20 and, after that, 2030.

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**The skin care market in Japan has been mainly centered on brightening products, but competition is expected to heat up for products such as cosmetics that reduce wrinkles. Has there been a change in your market outlook and strategy?**

For wrinkle care, *SOFINA Lift Professional*, which we currently sell, is performing well and can stand on its own. For cosmetics, we need distinctive images and hit products, which we don't have enough of. Although *SOFINA iP* is doing well, we need to use it as an opportunity to link to basic skin care. Last year, we renewed Sofina skin care products with ingredients extracted from tuberose, but we have not been able to communicate the value of these products appropriately. If we can do that, we can also increase sales related to inbound demand.

**For cosmetics, isn't it precisely because business results are bad that you can make drastic reforms such as personnel reductions? Also, the e-commerce channel is said to account for 20% of the cosmetics market in Japan. Have other retailers come to understand that the business is difficult, as exemplified by Kao's efforts for e-commerce that were not possible because of its relationship with drugstores?**

After the financial crisis in 2008, we were able to recover somewhat with structural reforms to deploy personnel appropriately and optimize the number of brands. But if more is necessary, morale goes down, so it is better to do it when things are going well. Now, we need to reform working style. For example, without increasing the number of beauty staff by reconsidering where they are deployed, we can generate profit at stores that were previously operated by beauty staff by changing them to self-selection stores, while expanding sales at other stores by increasing staff through appropriate personnel allocation to enhance counseling.

Conversely, there are things that we can do when the social environment changes. Sales of *Merries* baby diapers in China grew substantially through e-commerce and baby specialty stores, so we were able to increase our share even though we were last to enter the market. Since we can respond without obstacles when the environment changes, we need to think about how to proceed with cosmetics.

**Do you think e-commerce is also a necessary sales channel for cosmetics in Japan?**

We need an approach for e-commerce different from that for store sales. We will continue to increase experience-based promotions. At the same time, we will focus on e-commerce. We will communicate value with different approaches for store sales and e-commerce.

**Are shampoo and other products selling through e-commerce?**

For *Merit Pyuan* shampoos, which we renewed in the spring, we are communicating value through digital advertisements rather than television commercials, and they have a 5% share in some stores. *Merit* and *Essential* shampoos and conditioners have shares of 10% each, so it may be in part due to the effect of being a new product, but it is selling. The products have a non-silicone formula, and utilize sebum-absorbing foam technology and a new technology that reacts to perspiration by emitting a fragrance that we use in products in other categories.

**Your competitors are doing relatively well in cosmetics. How are your major reforms progressing, and what is your own assessment of them? What are your tasks in the organization, branding and marketing of Sofina and Kanebo Cosmetics? Is there anything you could have done to make things go a little more smoothly?**

To make maximum use of our assets, we have integrated the aspects behind the scenes such as research, production, quality assurance and sales functions. We started major reforms to strengthen skin care for Sofina in November 2015 and for Kanebo Cosmetics in September 2016. *SOFINA iP* is doing well, but we have not been able to establish a link to Sofina basic skin care yet. The main points are skin diagnostics and counseling that are different from conventional procedures. The visible brands –Sofina and Kanebo Cosmetics – must be different from each other, so separate approaches are required. We haven't differentiated their images enough. Since we have integrated our technologies, product development will wind up undistinguishable if we use the same concepts. On reflection, it requires greater overall control

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from the top. Collaboration with people from outside the Kao Group to create the brands' images is also likely to be useful.

**Are you saying that you distinguish Sofina and Kanebo Cosmetics by brand image, not by product offering based on your technologies?**

We have to craft the features and images of each brand using a different approach from our competitors.

**If you are aiming for high-priced skin care products in cosmetics, we can't expect too much to change. Aren't you thinking about reducing the number of brands?**

Enhancing counseling is necessary to strengthen skin care. We have already reduced the number of brands through our structural reforms, and further selection and concentration of brands is needed to offer counseling that clearly conveys the strong points of particular brands. With this kind of product design and counseling, we can increase sales per store.

**How should we judge whether or not you can improve the profit margin of cosmetics?**

Sales will grow as a result of our major reforms of cosmetics to strengthen skin care, and we will maintain the same profit margin until 2018. You should look at the improvement in the profit margin from 2019.

**If you are unable to improve the profit margin for cosmetics, will you sell off assets or enter into a partnership or merger, or the like?**

We are not considering it.

**3. In Japan, the magnitude of e-commerce price reductions has increased since last year. Assuming that e-commerce gains consumer support and grows substantially, will you deploy more sales promotion expenses for it? Can you foresee an increase in profit from an increase in the proportion of e-commerce in overall sales?**

We are not considering a major change in direction. The questions are how much e-commerce will grow in Japan, and how to communicate our value. In China, young women appear to mostly purchase through e-commerce, but Japan has a culture that emphasizes the in-store experience, so we do not foresee as much growth in e-commerce as in China.

Now, the market is changing from "mass" to "small mass" groupings. We need to think about various methods other than television commercials for communicating our value, whether they be digital marketing, in-store point of purchase promotions, or in the case of cosmetics, counseling or experience-based events. There is no point in hanging ads in trains if all the passengers are looking at their smartphones.

**Convenience stores and other retailers have announced price reductions, while there are also expectations that work style reform will raise consumption. What do you think will happen to prices of household and personal care products?**

Retailers Seven Eleven and Aeon, have reduced their prices, but mainly for low-priced products. The impact on products with high unit prices is minor. Manufacturers, including our competitors are placing emphasis on high-value-added products. Even at e-commerce operator Rakuten, the impact is different depending on the product.

**In the Japanese market from January to April, both household and personal care products and cosmetics were on a par with the same period a year earlier. For household and personal care products, isn't that because you raised unit prices but sales volume was weak?**

Trends in certain categories may have an impact, so we have to factor them in. In laundry detergents, for example, there was a slowdown compared with a year earlier because larger

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sizes of refill products have been increasing, which has lengthened the period until the next replacement purchase.

**Do you expect a slight increase in the household and personal care products market in Japan from the same period a year earlier, with no change in your market share?**

We aim to outpace market growth by 1 or 2 points.

**4. What are your channel and product strategies for baby diapers in China? What are you doing there? What is your aim? What issues lie ahead?**

For baby diapers in China, the influence of word of mouth is significant, and we are working on reforming our sales structure rather than marketing activities. We are promoting measures to maintain our premium aura so that brand value will not be damaged by sales at lower prices through e-commerce by parallel importers. In addition, in autumn 2016 we launched improved products.

In China, 1Q sales grew substantially due to a one-time initial shipment to new wholesalers and retailers as a result of the termination of our partnership with Shanghai Jahwa United Co., Ltd. (Shanghai Jahwa). Sales to date in 2Q are progressing as planned. We are aiming for at least double-digit growth.

We are seeing a resurgence in activity by parallel importers in Japan, so there may be one-time factors associated with promotion initiatives taken by e-commerce sites.

The number of local brands in China has increased substantially, with baby specialty stores accounting for nearly half of in-store diaper sales, and prices for some brands are even higher than for *Merries*. Quality has also risen overall. From 2020, locally produced products may account for the majority of the market. Locally produced *Merries* are also growing by double digits, although total sales are still small. How we deal with that will be an issue.

Also, baby diapers in China have been mainly tape-type, but the proportion of pants-type diapers has risen. We want to get the users who started out buying our tape-type diapers to move on to pants-type products by communicating the value of tape-type diapers, which are gentle on a newborn's skin, and pants-type, which are gentle without being too tight for a one-to-two-year-old's skin.

**Are there users who start out with *Merries* tape-type diapers, then switch to another brand's pants-type products?**

In China, people switch brands easily due to word of mouth. The point to focus on is that the proportion of pants-type diapers is increasing.

**In China, do you foresee sales growth until 2020 for baby diapers manufactured in Japan?**

We foresee growth until 2020. There is a possibility that the market situation will change suddenly during or after 2020.

**What is the composition of sales channels in China?**

The market breakdown for 2016 is slightly more than 40% e-commerce, about 30% baby specialty stores, and a little more than 20% general merchandise stores and other outlets.

We have been focusing on e-commerce and baby specialty stores. However, small and medium-sized local manufacturers have increased and their market share is growing. Then again, *Merries* has a strong presence in hypermarkets, which do not regularly handle products unless they have the number-one or number-two market share. In that regard, it is also important to focus on increasing our market share, so we are acting in cooperation with wholesalers and retailers.

**What is your strategy for the baby diaper business in China after 2020? How will you roll it out to rural areas?**

I cannot say yet what our strategy will be after 2020, but we will not survive by continuing our current strategy. We also need to put down roots locally by increasing production at our plant in Hefei, Anhui Province. We are preparing to do so. E-commerce has made it easy to deliver goods to rural areas where there are no stores. Demarcating coastal, inland and rural areas has become unnecessary.

**What is the optimal ratio for e-commerce sales of baby diapers in China?**

Baby diapers are bulky, so the current ratio of around 40% or 50% is probably appropriate. The e-commerce ratio for the overall Chinese market is about 20%-30%, so baby diapers are nearly twice that.

**There is a view that rural areas in China don't constitute a market because even though the population is large, incomes are low. Do you see demand for high-quality products even though incomes are low?**

When incomes are growing, consumers demand quality products. Our chance for success is when incomes are rising. This is the case in China, Indonesia and Vietnam and, in the future, India.

**What was the benefit of changing the sales channel for baby diapers in China? How did the transaction terms and costs change? How does it relate to more efficient use of marketing expenses and sales channel reform?**

We were able to raise the efficiency of sales personnel activities through our partnership with Shanghai Jahwa, which enabled us to change sales channels while maintaining a high profit ratio.

The change in sales channels was this year, and right now we are ascertaining the best method for building a win-win relationship with wholesalers and retailers. *Merries* has become a strong brand, so we can enjoy more of a benefit than before and cooperate profitably with excellent wholesalers.

**Are there any cases where sales will become more difficult as a result of terminating the partnership with Shanghai Jahwa?**

There are some, but the overall effect has been positive.

**Has the price of baby diapers in China settled down?**

It has settled down. We have acted so that brand value is not damaged by lower-priced sales through e-commerce.

**How are you monitoring the market inventory of baby diapers in China?**

We share information with wholesalers on inventory management, sell-in and sell-out.

**In China, the number of births has increased by 20% since the end of last year. However, because most of that increase is due to women in their forties hurrying to give birth, I think the number of births will decrease in a year or two, which means there is a high likelihood of overproduction in the baby diaper industry. What is your view on this?**

In late January 2017, the National Bureau of Statistics of China announced that the number of births in China in 2016 was 17.86 million (an increase of 1.31 million, or 8%, compared with the previous year). I expect the number of births to increase in the future. Also, the rate of switching to disposable diapers is still low.

**As a result of the termination of the partnership with Shanghai Jahwa, can we expect major changes in categories other than baby diapers, such as laundry detergent and sanitary napkins?**

There will not be any big changes right away, but we are now able to work with new wholesalers on laundry detergents, sanitary napkins and mass skin care products as well as *Merries*. We are now generating profits from product categories other than *Merries*.

**What is the situation for mass skin care in China?**

*Bioré* and *Curél* are selling well. *Curél* derma care product sales continue to grow by double digits in Japan. In Asia, sales are still small, but growing. In cosmetics, sales of Kanebo Cosmetics' *freeplus* sensitive skin care are growing.

**What is the situation for baby diapers in Indonesia?**

They are selling well. We are considering an increase in production.

**Will you enter the baby diaper markets in new regions in Asia?**

We are currently handling those markets through exports, but it is under consideration.

**What about production bases?**

We have to think about that. Local bases may be necessary in addition to production increases in China and Indonesia. Basically, we believe that local production for local consumption is important for baby diapers.

**5. The operating margin of the Consumer Products Business in Asia was 8.7% in 2016. How will it improve with future sales growth?**

The adjusted operating margin of the Consumer Products Business in Asia was over 10%. In China, you can look forward to improvement in the profit margin from growth in sales of mass skin care along with baby diapers. In Indonesia, we are investing in baby diapers, laundry detergents and skin care products, and profits are exceeding our plan. We expect improvement in the profit margin as sales volume increases.

**6. Specifically, what kind of organizations and structures will you create under the top-down business model in order to achieve greater growth than your global competitors? Will you acquire them through M&A? Or will you change to an organization that will expedite global brand development?**

The numerical targets of K20 are an operating margin of 15% and net sales CAGR of +5%. That entails an increase in operating income of 70.0 billion yen and a CAGR of +8.6% from the 2016 level of 180.0 billion yen, so we will not achieve it by increasing sales alone. We will make up the difference by enhancing efficiency, even if costs rise above the previous year's level. The target for this year, the first year of K20, is challenging, and from 1Q we have been conducting a detailed review of how various expenses compare to our plan and how to deploy them.

We are conducting this review by rejecting for the moment the approaches we used in the past. We must not change our corporate philosophy or culture, but we will carry out work style reform and cost efficiency measures by promoting our top-down model.

We are rethinking from scratch our approach to daily work, our budget-making process and other matters. Even for meetings, time and expenses can be used more efficiently by reviewing materials and the approach to presentations and discussions.

For example, there are cases where business units, research and development, sales and other departments all carry out similar surveys. We can raise efficiency by viewing the situation from the top down and conducting the necessary surveys without duplication. Advertising, work at

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production plants, organizational structure and allocation of personnel are all the same. By looking at bottom-up processes from the top down, we will consolidate them to raise efficiency.

We are also taking a top-down approach in considering growth through new businesses, including M&A. We will also get a clear picture of the profit margin by looking from the top down. We will conduct M&A by 2020 as we aim for further growth.

**Why were you previously unable to raise efficiency from the top down?**

When we were growing, we were generating innovation, creating quality products and had a high profit margin, so expenditures were offset by the higher growth rate. Now we are in an era when a higher level of innovation is required, so things are not so simple. We need greater efficiency.

**How much progress have you made toward your targets at the two ink companies you acquired last year in the Chemical Business? To what extent are they contributing to sales and profits? What are your plans for them in 2020?**

It will take four to five years to build our ink business. We believe that with our acquisition of Collins Inkjet Corporation of the United States and Chimigraf Holding, S.L. of Spain, we can make a major change in the world of printing, but it will take time for our customers to decide to adopt these companies' products, so we expect to see results in 2020 or thereafter. We are also considering M&A in the B-to-B field, but it will be difficult to generate results immediately.

**Since it takes time to produce results from M&A, will achievement of the numerical targets of K20 come from raising cost efficiency rather than the contribution of the Chemical Business?**

M&A will have a positive effect on consolidated sales and profits, but business expansion will take time.

**Does the operating margin target of K20 include plans for M&A and new businesses?**

M&A is not included.

***Healthya* functional drinks have not recovered even though you have changed your promotion of their functions, communication methods and TV commercials. How will you revive the brand? I think food products need deliciousness, appropriate sizing or some other factor to habituate consumers to a promotion based on their functions. What do you think?**

Competition is severe, and that includes foods with function claims. We have launched a line extension that offers deliciousness, and we are communicating its value from various angles. Moreover, there has been a year-on-year upturn in sales of *Healthya* in recent months as a result of measures such as making *Healthya Black Tea* and *Healthya Malt Style*, which had been sold only in limited channels, available in all channels. We are considering every possibility, including communication methods, size and price, to revive the brand. It will be hard to make a renewed entry into the functional food business if we do not revive *Healthya* first

**To what extent will sales of *Healthya* have to recover before you start on a new functional food business?**

We have set a level inside the company. We have continued our research and development since *Econa* cooking oil, but selling food products is difficult, so we will not re-enter the market recklessly.

**Where and how much room is there for improvement to achieve the K20 operating margin target of 15%? When will you reach a higher level of global competitiveness?**

To achieve the operating margin target of 15% in K20 and 17% by 2030, we must raise the operating margin of cosmetics, beverages and other businesses to 10%. To aim for an operating margin of 20%, we need to enter new businesses with high profit margins. We are considering a new business in the field of hygiene, which lies between cleanliness and health. While broadening the business domain of cleanliness, beauty, and health, we will also expand in bordering areas to create businesses that we can grow into high-margin businesses.

**7. What is the status of your efforts for digital marketing? *SOFINA iP* often appears in beauty magazines, but I haven't seen anything else. Do you mainly use digital marketing for high-priced items? Are your efforts for that enough?**

Digital marketing is commonly used for premium and niche products. It is far more efficient than television commercials at getting consumers to feel a personal connection to a product. We use digital marketing exclusively for certain products, such as *Merit Pyuan* shampoos and conditioners, which are higher-priced products. In magazines, beauty writers and others who have used the products publish articles.

**8. It is unfortunate that the K20 Mid-term Plan is focused on business and does not include environment, social and governance (ESG) numerical targets. I was expecting that you would have already decided ESG's materiality and disclosed your targets for 2020 and 2030. What is your policy on numerical targets for ESG?**

There are differences in the way people think in Japan and elsewhere about matters such as targets related to the environment, for example. We did not incorporate them in K20, but after discussion we thought of putting them in our integrated report. Kao has been selected as one of the World's Most Ethical Companies for 11 consecutive years and has also enhanced its efforts toward attaining the sustainable development goals (SDGs) and for governance. That is appropriately presented in our Corporate Governance Report and elsewhere, but it may not have been communicated well.

**There are many figures related to ESG presented in various reports, making it hard to get a full picture in one place, so it is difficult for outsiders to understand what is important. Detailed content can be presented in various places, but it is easier to understand if you outline your approach and compile the things you want to do because you consider them important.**

ESG is important, so I would like to speak comprehensively about it on another occasion.

**The *Raku-raku Eco Pack Refill* is presented in Kao's integrated report. It is a product that not only is environmentally conscious and incorporates universal design, but also shows a consistent flow from ecological concerns to business that has led to product differentiation and sales. Doesn't that make it easy to say that ESG is deeply rooted in your business?**

That's right. We have to show how our efforts for ESG are linked to our business. I want Kao to lead the industry with the establishment of *Raku-raku Eco Pack Refill* in the market.

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