

The Kao Way

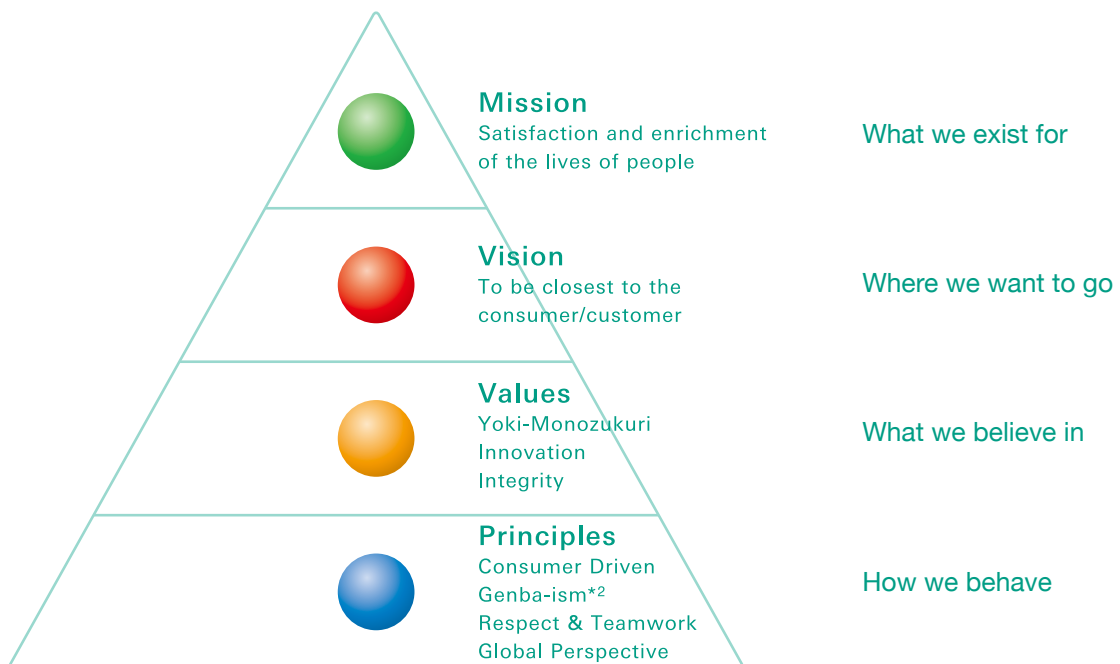
Fundamentals That Support Kao's Value Creation

The Kao Way

The source of Kao's value creation is the pursuit of *Innovation* and *Yoki-Monozukuri**¹ based on *Integrity*.



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



*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."

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

Our founder's final words to his family were:

“Good fortune is given to only those who work diligently and behave with integrity.”

This saying reminds people of the importance of always acting ethically in accordance with the principle of *integrity*, because by doing so you will earn the respect and trust of consumers. This attitude, embodied in the concept of Integrity, continues to underpin Kao's corporate philosophy—the Kao Way—and serve as a guiding principle for Kao employees. The source of Kao's value creation is the pursuit of *Innovation* and *Yoki-Monozukuri* based on *Integrity*. Taking this as the foundation for our operations, at Kao, we constantly put ourselves in the position of the consumer and customer as we take on our mission to strive for the wholehearted satisfaction and enrichment of people's lives and to contribute to the sustainability of the world. The Kao Way is the systematic embodiment of the vision that we have maintained ever since the company was first established, and which is carried on by everyone working at Kao.



The Founder of Kao
Tomiro Nagase

The *Yoki-Monozukuri* spirit that Kao has maintained over the years.

“We want to deliver quality products into the hands of as many consumers and customers as possible, to enrich people's lives and culture.”

The *Yoki-Monozukuri* spirit, which embodies the passionate commitment of Kao founder Tomiro Nagase, has been handed down within the company for over 130 years.

Ever since the company was founded in 1887, we have sought to contribute to the lives of consumers and customers, and to meet consumers' and customers' needs with *integrity*. Through *Yoki-Monozukuri*, we have continued to provide society with useful products.

In the future, we will continue to take account of changing times and changing lifestyles, while always maintaining a close relationship with our customers, and, through *Yoki-Monozukuri* that comes from the heart, implementing measures aimed at helping to keep both people and the planet clean and beautiful.



1890

Kao founder Tomiro Nagase launched *Kao Sekken*, an affordable Japanese-made soap with the quality to compete with imported products.

The Development of Kao's *Yoki-Monozukuri*

Over the past 130 years, Kao has worked to enrich people's lives and help consumers have fulfilling lifestyles.

1930s–

Everything starts with consumer feedback

Kao has taken a consumer-driven approach since its founding by listening to consumer feedback and maximizing ways to use it.

1934 Housework Science Laboratory established

The laboratory conducted scientific research on practical housework and offered new lifestyle suggestions.



The Science of Housework magazine



Housework workshop



Consumer Consultation Information System

1971 Kao Life Science Laboratory established

The laboratory supported consumer consultations and education as well as research into housework, with the goal of improving customer support and responsiveness.



These days, around 220,000 consumer consultations are received annually in Japan (2017)

1978 Consumer Consultation Information System introduced

This system compiled consumer feedback in a database in order to offer faster responses to customers and to facilitate new product development.

1950s–

Expanding business fields to cleanliness, beauty, and health

Kao's business activities now range broadly across beauty and health, and generate a series of long-selling brands.

1950s–60s Extending "washing" to hair, clothing, and the home

Kao developed new technologies mainly using natural fatty alcohols, which led to the creation of products that clean away various oils, dirt, and stains found in hair, on clothing, and around the home.



1960 Mypet household detergent



1951 Wonderful powder laundry detergent



1955 Kao Feather Shampoo

1970s–80s Expansion into the beauty and health fields based on research related to people

By focusing on basic research related to people, including skin and hair, Kao made great strides in beauty and health and diversified its business.



1982 Sofina cosmetics



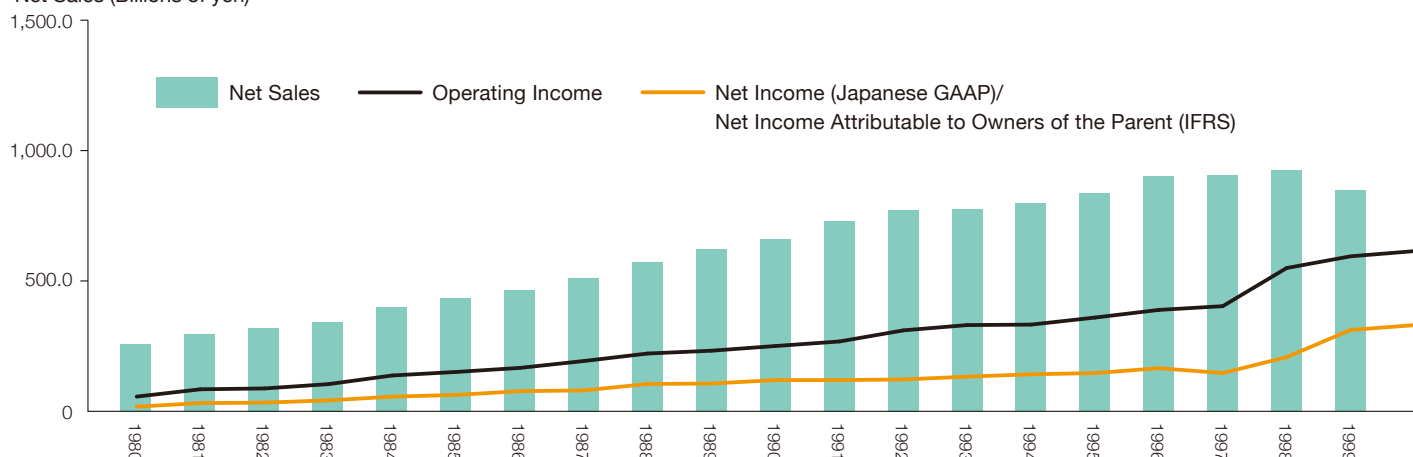
1983 Merries baby diapers



1983 Bub carbonated bath additive

Kao Group Financial Performance since 1980

Net Sales (Billions of yen)



1960s-

Together with customers around the world

Kao expanded brands that originated in Japan to other parts of Asia. In the Americas and Europe, premium beauty care brands joined the Kao Group.

1960s Expansion into Asia Product development to fit local lifestyles

The Consumer Products Business started by exporting products to Thailand. Kao Industrial (Thailand) Co., Ltd. and Taiwan-Kao Co., Ltd. are established in 1964.



Kao engages in product development to fit local lifestyles.



2014 Attack Jaz1 laundry detergent (Indonesia)

1980s Expansion into the Americas and Europe Premium beauty care brands join the Kao Group

Kao's technologies are used to pursue productive partnerships while building on the strengths and worldviews of the various brands.



1980s-

Maintaining our lifestyle into the future

Kao continues striving to reduce negative environmental impacts so that we can all enjoy enriched lives now and in the future.

1987 Concentrated laundry detergent

Kao launched Attack, a concentrated laundry detergent that offers a powerful cleaning action with just a small amount of product. This reduced the amount of paper used in packaging and the energy used during transportation.

Reduced box size by 80%
Reduced weight by 62%



1991 Developing and promoting refill packs

Kao developed refill packs and refillable products to reduce plastic consumption.

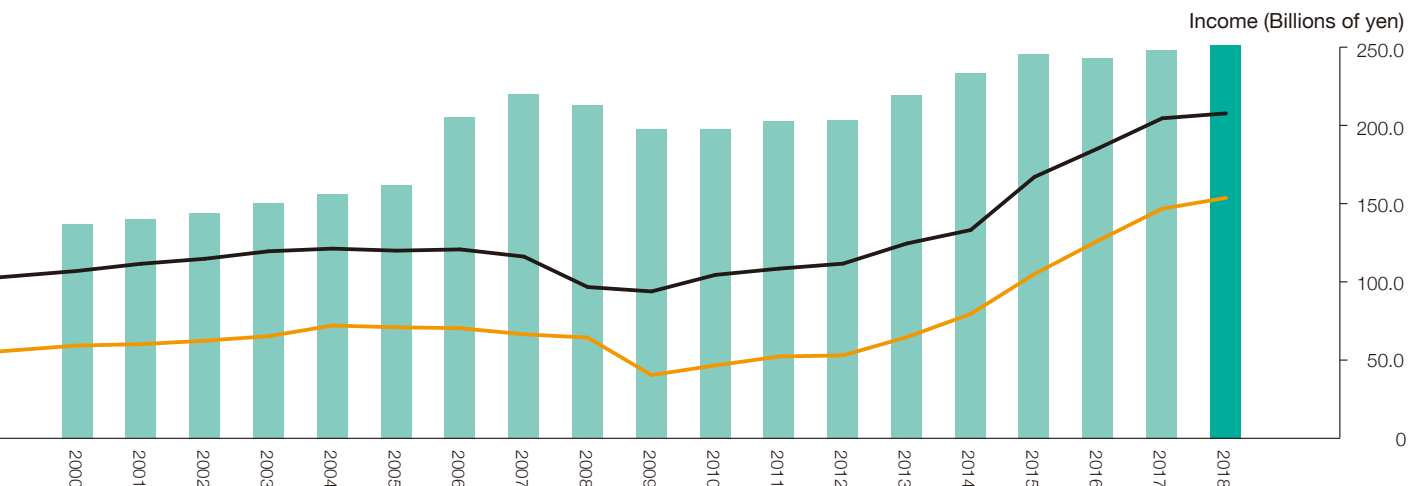


2009 Reducing laundry-related water consumption with one rinse cycle

Kao launched Attack Neo, an ultra-concentrated liquid laundry detergent that allows consumers to conserve water and electricity. Kao released the Kao Environmental Statement, presenting its policy for manufacturing with greater environmental considerations in mind.



Reducing the number of rinse cycles to just **1** rinse



Essential Research



In order to realize Kao's *Yoki-Monozukuri* vision, we are constantly making effort to develop innovative products and achieve ongoing improvement, through Essential Research.

Kao invests approximately 4% of its net sales in research and development (R&D). Nearly half of this amount is used for Fundamental Technology Research, reflecting our ongoing commitment to Essential Research. The knowledge that Kao has accumulated through our R&D has been the wellspring for its business and product growth in the past, and also helps to drive the generation of

new products and new business areas in the future. Every product comes to the end of its useful life eventually. Similarly, no business area will continue to thrive forever. The fact that Kao attaches as much importance to Fundamental Technology Research as it does to new product development reflects its commitment to constantly achieving significant new innovation and constantly developing new business.

Where Kao Excels in Essential Research

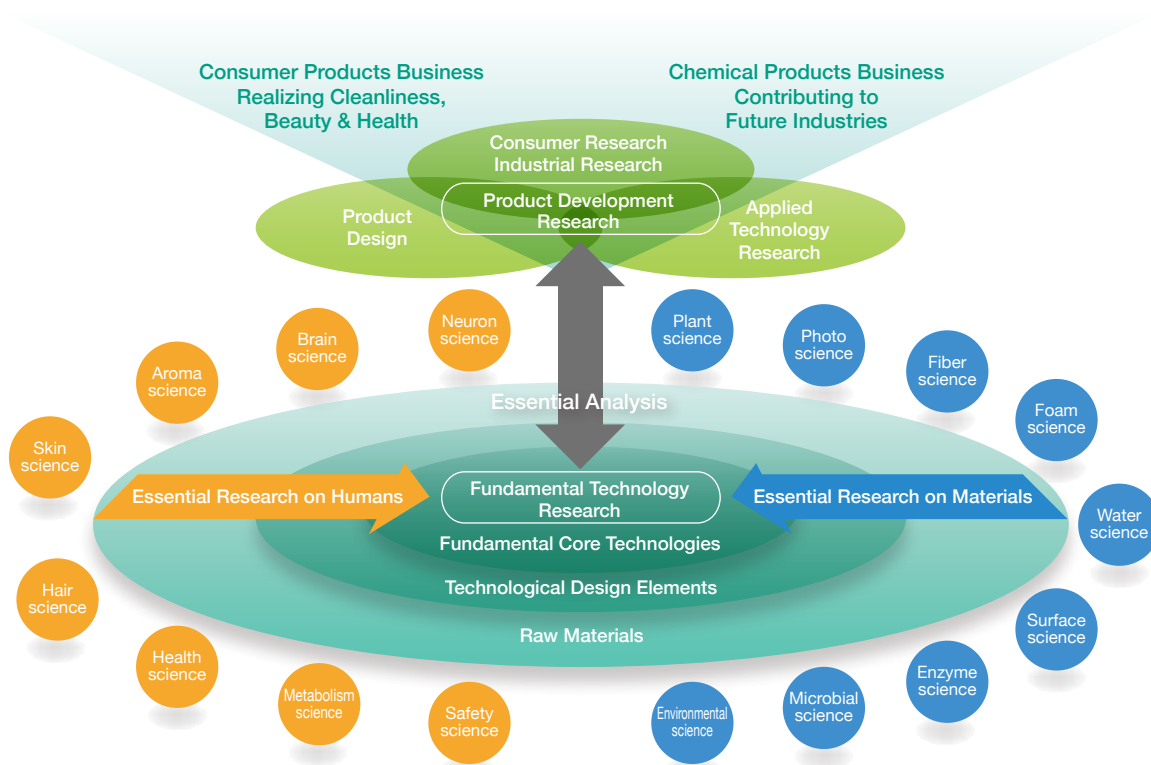
We live in an era in which, because consumers' attitudes and behavior are becoming increasingly diversified and are changing in dynamic ways, it is difficult to accurately identify their needs and preferences. Kao believes that, in order to be able to continue providing consumers with the products and services they want, it is more important than ever to strive for essentiality. By undertaking research on an ongoing basis, Kao can make steady progress towards the essentiality, while at the same time, the new discoveries that Kao makes during the research process can lead to the birth of new products. Kao defines these activities as Essential Research, and our attitude towards research has remained unchanged ever since the company was founded.

In order to further enhance the speed and level of our R&D, Kao is working actively to adopt, cutting-edge technologies.

Technology is advancing rapidly around the world, and it is now normal practice for R&D to make extensive and effective use of artificial intelligence (AI). While taking the proactive adoption



of automated, integrated research that utilizes AI effectively to realize enhanced efficiency to an even higher level, we also attach ever more importance to creative research focused around human discoveries and inventions.



Essential Research

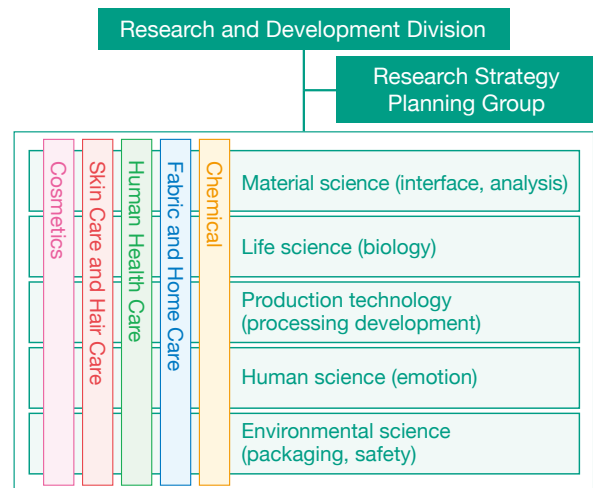
Working to Further Enhance Essential Research

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 needs in existing business domains
3. Share scientific technologies with society

To realize these policies, Kao has reinforced its matrix management for R&D activities, which gathers knowledge and goes beyond conventional technological domains. By putting in place an organizational structure in which individual research facilities report directly to the Research and Development Division, Kao has been able to realize faster decision-making and accelerated global growth. Matrix management makes it possible to integrate knowledge and technologies from many different fields, and the continuous linkage between our distinctive

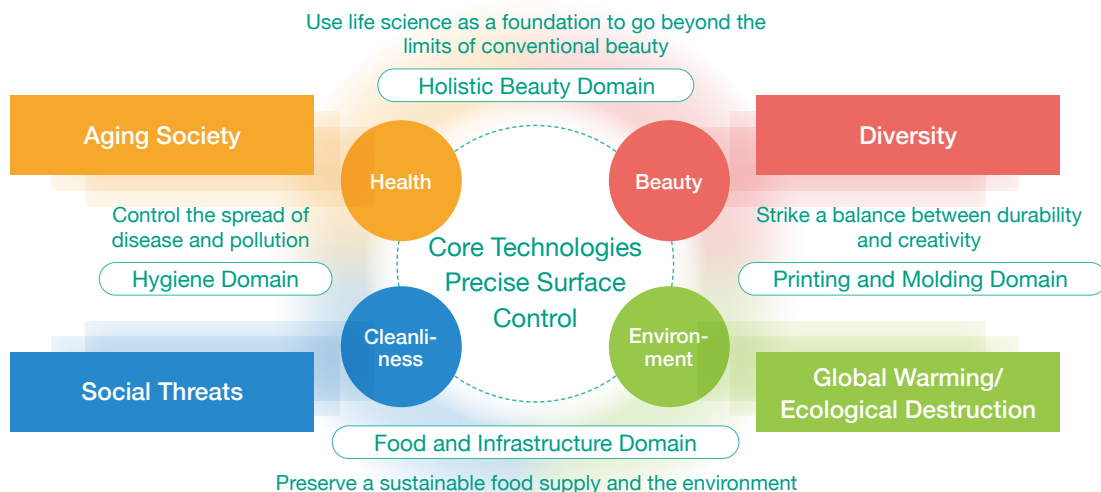
fundamental technologies and our new product development capabilities facilitates the generation of unique new product ideas that will create new value.



Mid-term Growth Strategy

Kao undertakes research in several domains that represent intersections of its existing businesses. These include the hygiene domain, which aims to control the spread of infectious diseases; the holistic beauty domain, which approaches beauty from the viewpoint of health; and the food and environmental sustainability domain, which aims to preserve a sustainable food supply and safeguard the environment. Kao is also seeking to challenge ourselves by using its R&D assets that Kao has

achieved in these areas to build new businesses that extend beyond our current business domains. These new domains are areas where our company can use its R&D assets effectively to help as many people as possible. Accordingly, Kao is advancing research to make a strong entry into these domains. By realizing technology innovation that has a positive social impact, Kao aims to implement *monozukuri* that creates world's first and world-leading technologies and products.



Kao Group Technology innovation session

In November 2018, Kao held a presentation on technology innovation that will underpin the Kao Group in the future, at which the company showcased five major new technologies that have been created through the intensification and fusion of Essential Research. In the past, when announcing the launch of new products, Kao also publicized the new technologies on which the products were based, but this presentation marked the first time that we had announced newly developed technologies prior to the products based on them.

New Technologies in Five Key Fields

- **Skin science:** Fine Fiber
- **Health science:** RNA monitoring
- **Hair science:** Created Color
- **Surface science:** Bio IOS
- **Environmental science:** Package RecyCreation

Multi-faceted Linkage and Collaboration between Industry, Government and Universities

The last few years have seen a diversification of consumers' needs, a heightening of ethical awareness, and a trend toward greater emphasis on individual personality. With the growing personalization of values, being able to offer one-to-one value offering has become vitally important. In order to respond effectively to these changes, multi-faceted linkage and collaboration with industry, government and universities, etc., is vital. Kao has

been focusing in particular on open innovation proposals, with the aim of building linkage— from multiple perspectives—in regard to technology exportation. Through these kinds of measures, Kao will be even better placed to offer value propositions that are beneficial to society, and the measures can also be seen as relevant to the ESG activities to which Kao has dedicated so much attention.

Skin science: Fine Fiber

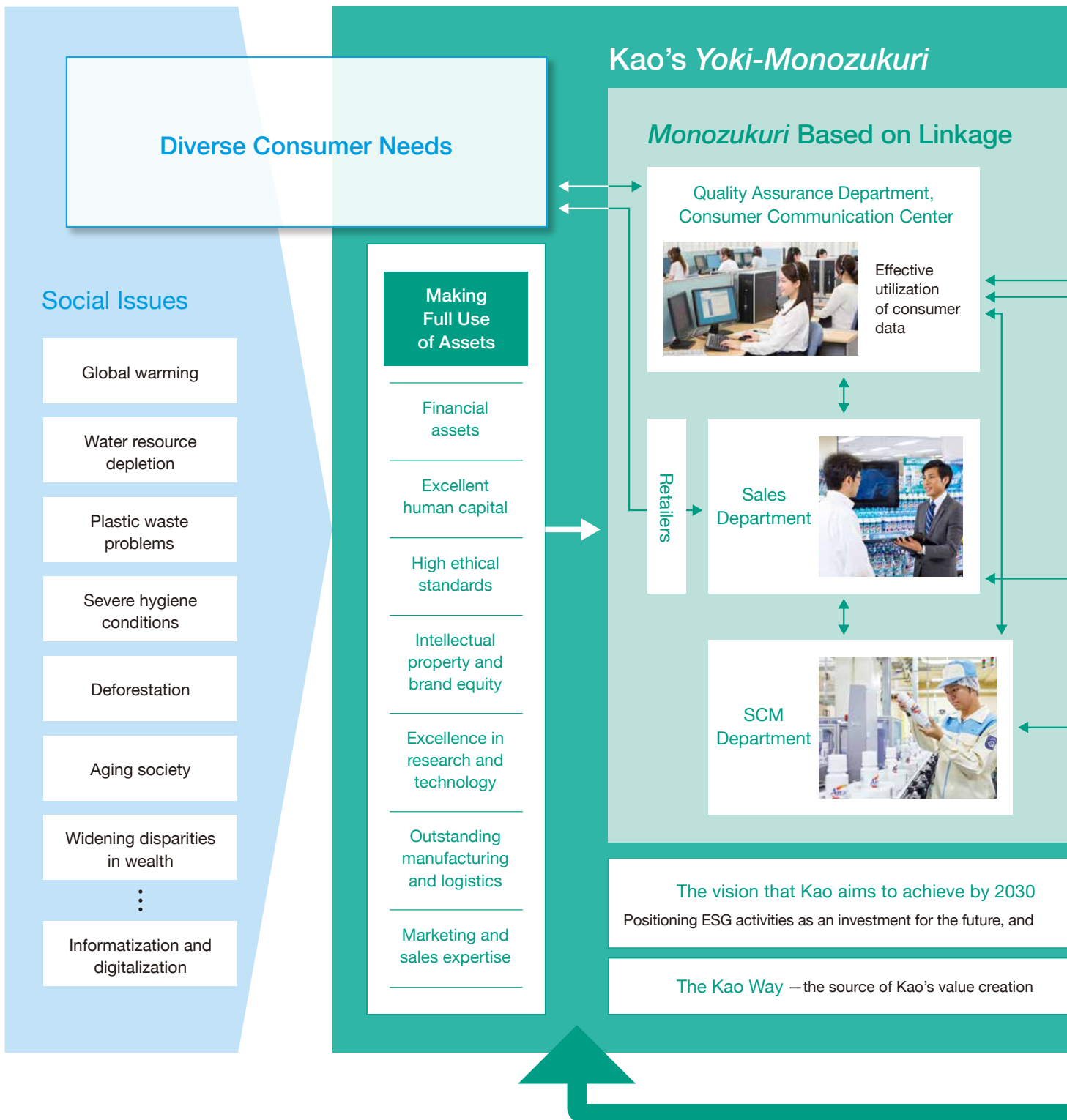
Fine fiber technology enables a layered, ultra-thin membrane made of superfine fibers with submicron diameters to form on the surface of the skin. The membrane is created by spraying the skin directly with a polymer solution developed for Cosmetics. The solution is loaded into a small, specialized applicator and discharged through a nozzle. The many layers of the solution form a membrane on the surface of the target object. The resulting film becomes thinner toward its edges, allowing it to blend naturally with the skin and rendering its boundaries unnoticeable. Additionally, because there is only a small difference in level between the membrane and the skin, it will not come off easily. With this technology, anyone can easily form a soft, smooth and natural-feeling film that fits closely on any part of the body. The film's greatest feature is its superior ability to maintain and even out Cosmetics used with it, thanks to



outstanding capillary action. At the same time, excess water vapor can escape from the spaces between the interwoven fibers. As a result, the film is able to maintain adequate moisture permeability without completely blocking the skin. By using fine fiber technology in combination with various Kao-developed Cosmetics, it is now possible to go beyond traditional concepts in cosmetic fields such as skincare and makeup. We are considering adaptations of the technology for use in the therapeutic field.

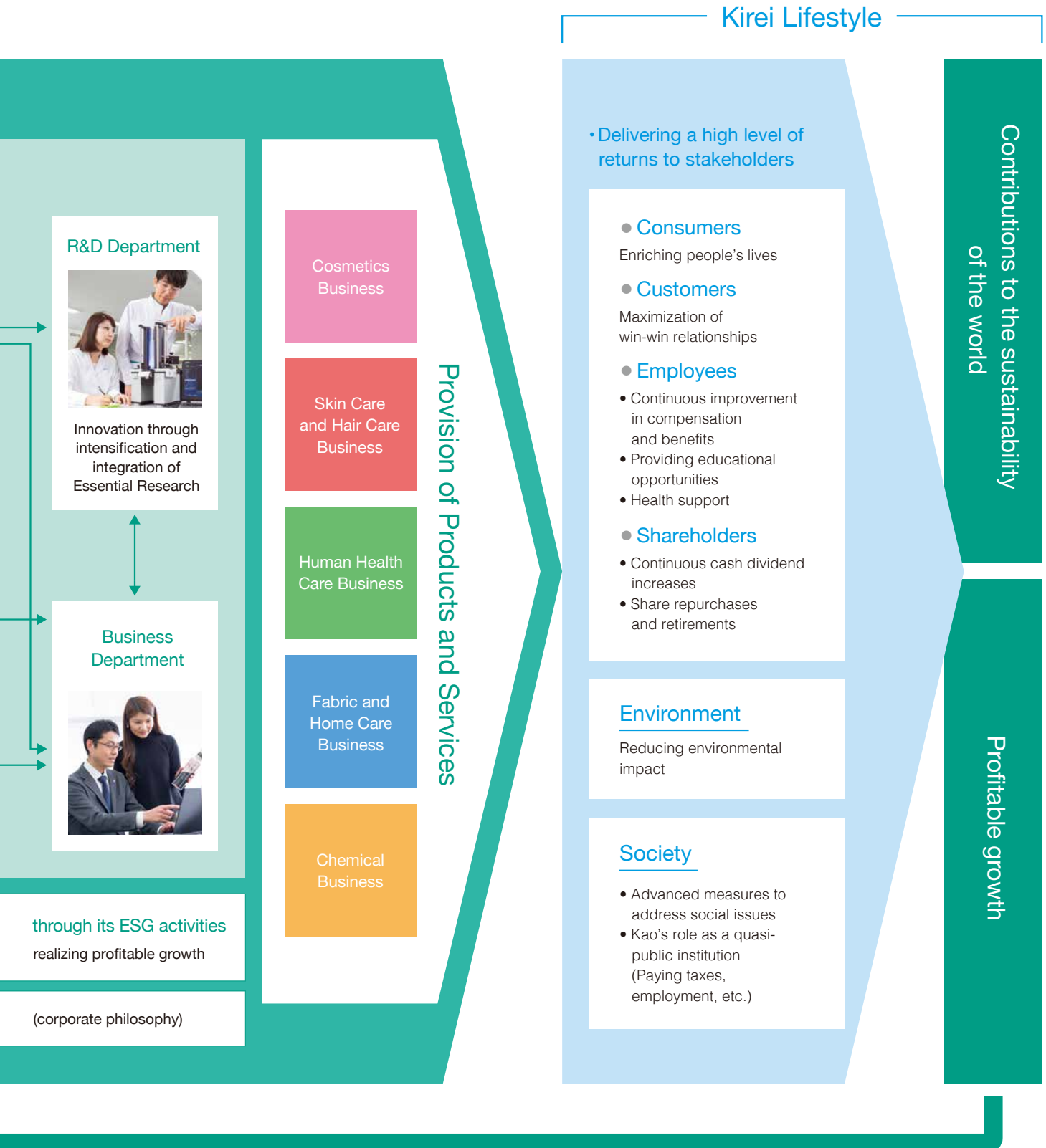
Kao's Yoki-Monozukuri*

Kao aims to make a positive contribution to society by implementing product development from an ESG perspective. To this end, we provide products and services that contribute towards resolving social issues by making effective use of the assets that we have built up over the years, and by responding to consumers' diverse needs. By contributing to society and realizing sustainable profitable growth through our *Yoki-Monozukuri*, we are



able to maintain a cycle that leads to new investment. Through our contribution to the realization of a sustainable society, we strive for the enhancement of corporate value over the long term, and enhance our presence in relation to stakeholders.



* 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."












Monthly Topics in 2018

Management Topics

FY2018 marked the second year of implementation of the Kao Group Mid-term Plan 2020 (K20). Kao acquired Washing Systems, LLC, a U.S. Professional-use products business, which represented an important investment in the global expansion of business-to-business (BtoB) sales. In the Cosmetics Business, we established a New Global Portfolio to serve as the core element in the global growth strategy.

<p>January</p> <p>Reorganizing the structure of the Consumer Products Business</p> <p>The existing eight business groups were reorganized into 10 businesses and one project, to realize faster decision-making and accelerated global expansion.</p>	<p>February</p> <p>Selected as the grand prize winning company for the Corporate Governance of the Year® Prize</p> <p><small>* Corporate Governance of the Year® is a registered trademark of the Japan Association of Corporate Directors (JACD).</small></p> 	<p>April</p> <p>Established a new Strategic Innovative Technology Team</p> <p>This team was established to promote a strategic digital transformation, and to realize a business transformation and enhancement of operational efficiency through the effective utilization of cutting-edge technology.</p>
	<p>February</p> <p>Selected as one of the World's Most Ethical Companies® (12th consecutive year of being selected)</p> <p><small>* "World's Most Ethical Companies®" and "Ethisphere" names and marks are registered trademarks of Ethisphere LLC.</small></p> 	

<p>January</p> <p>February</p> <p><i>Sofina Primavista</i> Makeup base that helps to prevent foundation breakdown due to oily skin</p>  <p><i>Bioré</i> Cooling sheet</p> 	<p>March</p> <p><i>Goldwell Pure Pigments</i></p>  <p><i>J.F. Man</i></p> 	<p>April</p> <p><i>Medicated PureOra</i> Foaming Toothpaste</p>  <p><i>Attack Pro EX</i> soap</p>  <p><i>Bioré</i> Facial Sheet that keeps makeup intact</p> 	<p>May</p> <p><i>Rerise</i> Hair color for gray hair</p> 	<p>June</p> <p><i>Sofina Aube</i> Brush One-Touch Shadow</p> 
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Product Topics

September

Kao selected for inclusion in the Dow Jones Sustainability World Index* for fifth consecutive year

* The Dow Jones Sustainability World Index (DJSI) is an ESG index provided by the U.S.-based S&P Dow Jones Indices and RobecoSAM, which evaluates sustainability.

August

Kao acquired Washing Systems, LLC, in the U.S., strengthening its Professional-use products business

July

Established a new ESG Division

The new ESG division was established to undertake the worldwide promotion of sustainable growth—for both business and society as a whole—that takes ESG as the foundation for management.

October

Included in the S&P/JPX Carbon Efficient Index

Kao is now a constituent of all of the ESG indices selected for investment by Japan's Government Pension Investment Fund (GPIF), which include, besides the S&P/JPX Carbon Efficient Index, the FTSE Blossom Japan Index, the MSCI Japan ESG Select Leaders Index, and the MSCI Japan Empowering Women Index (WIN).

November

Kao held a Technology Innovation Session

This session was held to spread awareness of the high-level research and technology capabilities with which Kao is contributing to the building of the society of the future, and to promote open innovation that involves collaboration between industry, government and universities.

New Technologies in Five Key Fields

- Skin science: Fine Fiber
- Health science: RNA monitoring
- Hair science: Created Color
- Surface science: Bio IOS
- Environmental science: Package RecyCreation

July

August

September

October

November

December

August

KATE Lash Former



September



October



Kyouryoku Kabi Haiter mold remover drain cleaner

Quickle Wet-sheets for cleaning fabric and carpets

July

Bioré Cleansing Micellar Water

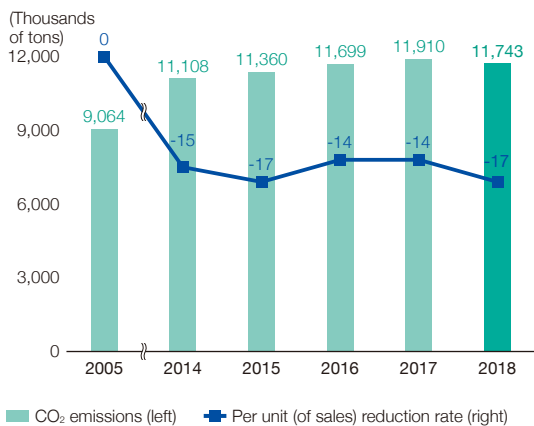


Non-financial and Financial Highlights

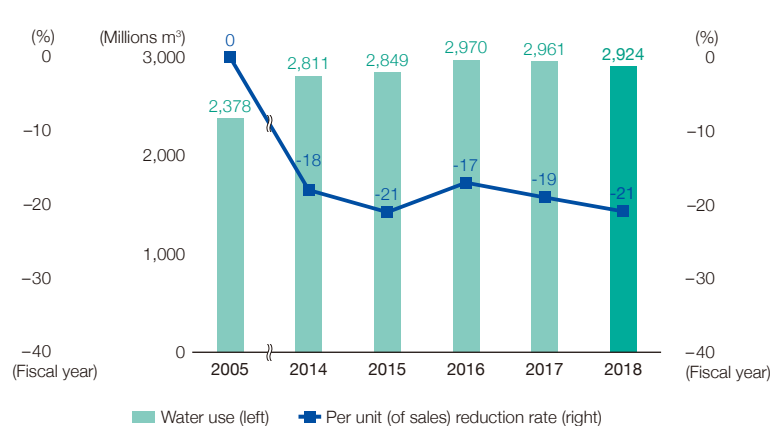
Key Points

- Selected for inclusion in the Dow Jones Sustainability Index (DJSI World and DJSI Asia Pacific)*¹ for the fifth year in a row
- Selected as one of the World's Most Ethical Companies® for the 13th consecutive year (February 2019)
- Received an A evaluation from the Carbon Disclosure Project (CDP)*² in the water and supplier engagement categories, and an A- evaluation in the climate change and forests categories
- Profits grew for the ninth consecutive year and operating income reached record highs for the sixth consecutive year, there by reflecting our sustained growth
- Continued to actively offer returns to shareholders, marking the 29th consecutive year of dividend growth
- Economic Value Added (EVA®) continued to grow, rising 3.4% year-on-year

CO₂ Emissions across the Product Lifecycle*³



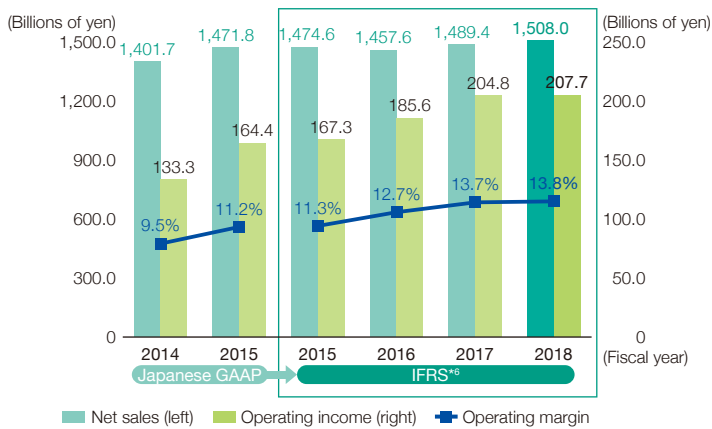
Water Use across the Product Lifecycle*⁴



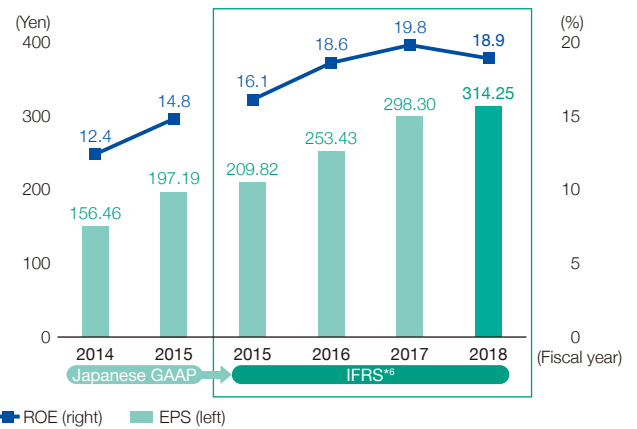
External Evaluation

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
DJSI World / 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-	● A-
Euronext Vigeo Eiris World 120 Index								●	●		●	●
ETHIBEL	●	●	●	●	●	●	●	●	●	●	●	●
oekom	●	●	●	●	●	●	●	●	●	●	●	●

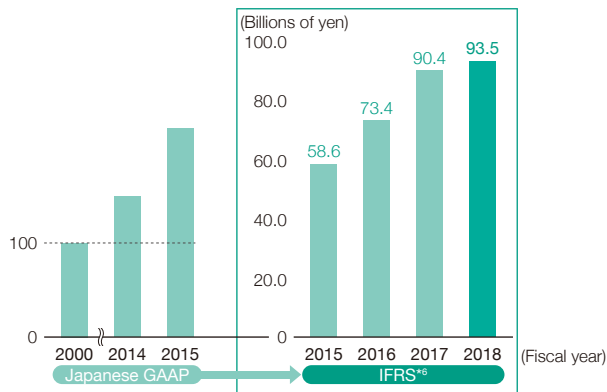
Net Sales / Operating Income / Operating Margin



ROE*7 / EPS*8

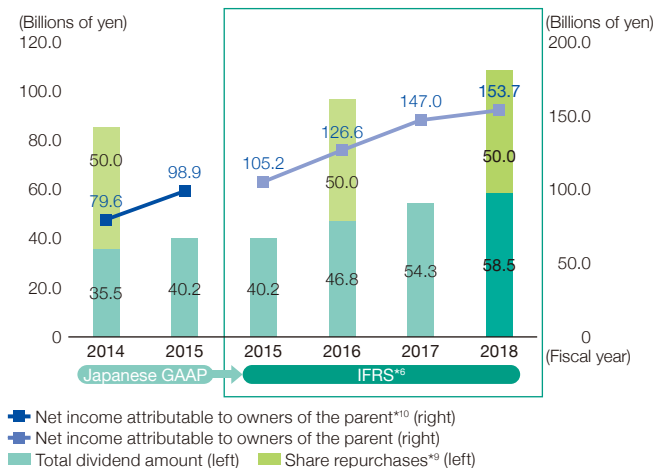


EVA®*5

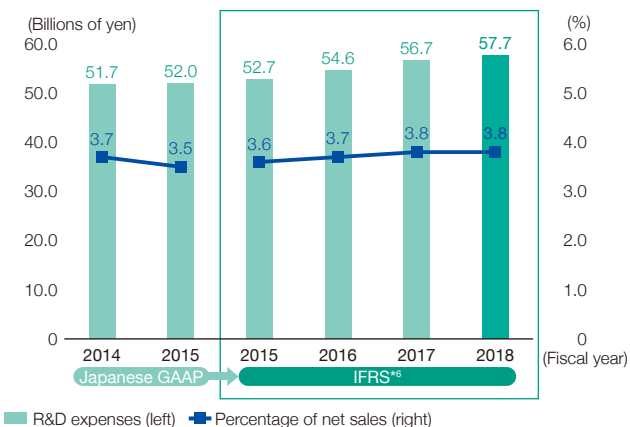


EVA® under Japanese GAAP is presented as an index with 100 representing the fiscal year ended March 31, 2000.

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



R&D Expenses / R&D Expenses Ratio



*1 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.

*2 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.

*3 "CO₂ 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.

*4 "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 processes. 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.

*5 EVA® is a registered trademark of Stern Stewart & Co.

*6 The Kao Group adopted IFRS in FY2016.

*7 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).

*8 Net income per share (Japanese GAAP)/Basic earnings per share (IFRS).

*9 Excludes repurchase of shares of less than one trading unit.

*10 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."