



Consumers can refill and reuse original product containers.



Chapter

2

What Kao Aims for

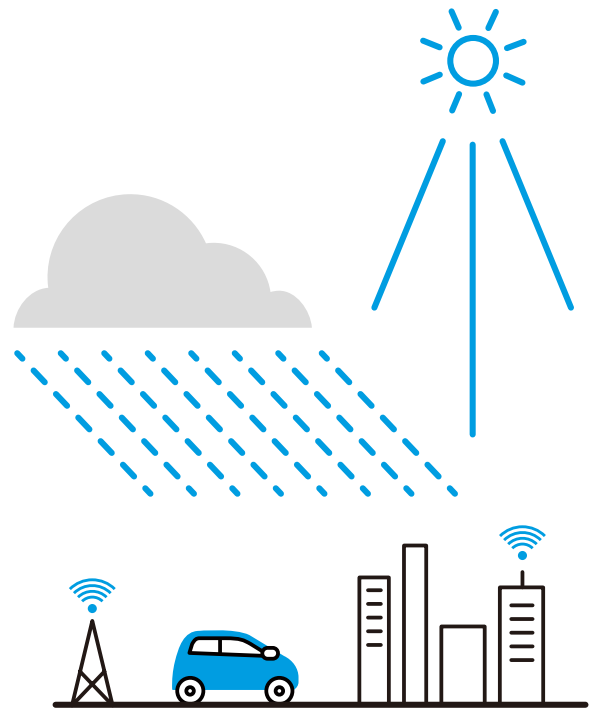
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The Social Situation

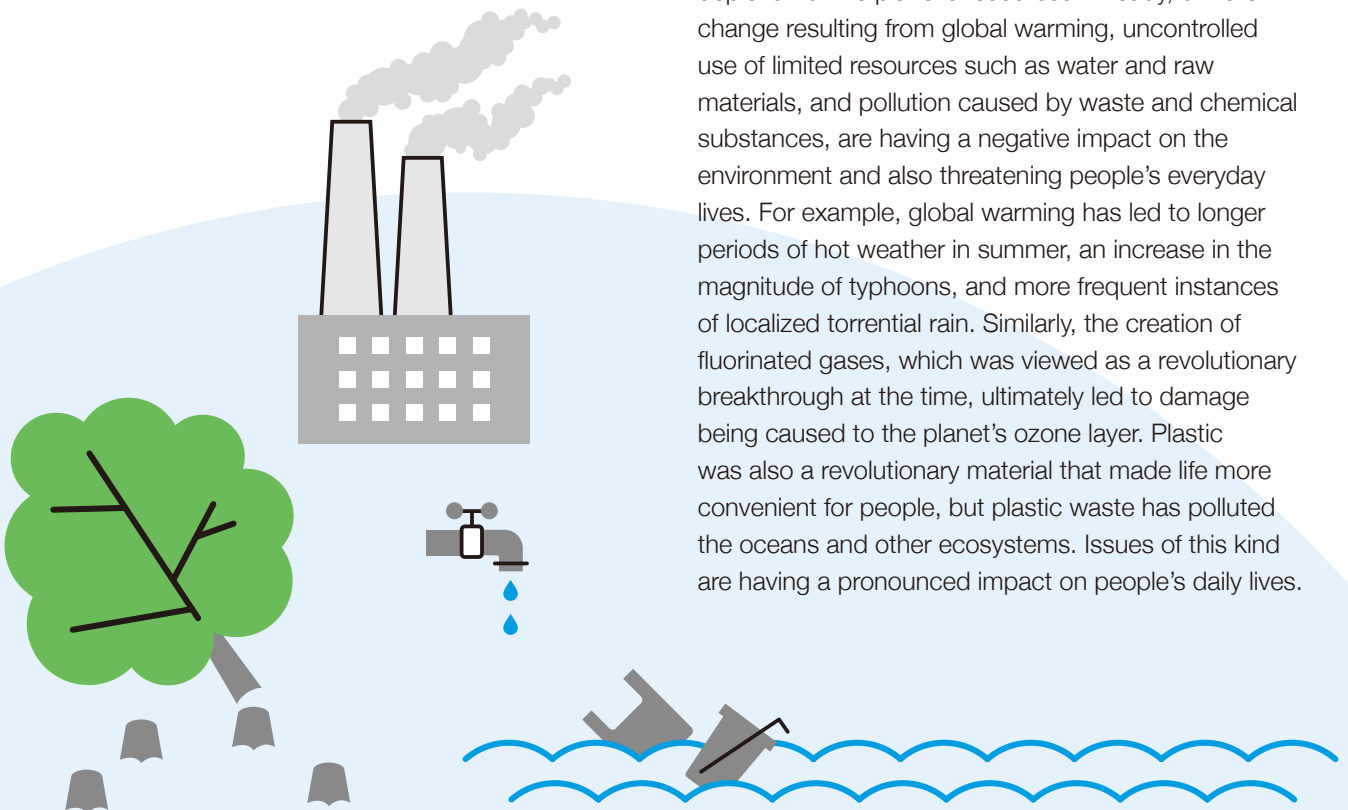
Aiming for Continued Development as a Sustainable Business Enterprise

The global society in which Kao operates is constantly undergoing dramatic change, of which the most obvious examples include the rapid evolution of technology and increased population flow. The emergence of the digital society has made it possible for people to access huge amounts of data of many different kinds, and has led to the normalization of the formation of virtual communities and a shortening of information lifecycles. At the same time, with the changes that have been taking place in lifestyles and in family structures, and with the new trend toward ethical consumption, there has been a diversification of people's patterns of behavior, values and needs, which has resulted in ever-growing product diversification.

A report by the United Nations published in June 2017 forecast that the world's population would reach 8.6 billion people by 2030, rising to 9.8 billion in 2050 and to 11.2 billion by 2100. We believe that it is important for us to do what we can, with integrity, to ensure that, in the future, our planet remains a place where people can live comfortable lives.



All of us benefit from the natural resources that have been created on this planet by being able to utilize them in our economic activities. It is therefore vitally important to combat environmental pollution and inefficient resource utilization that could lead to the depletion of the planet's resources. Already, climate change resulting from global warming, uncontrolled use of limited resources such as water and raw materials, and pollution caused by waste and chemical substances, are having a negative impact on the environment and also threatening people's everyday lives. For example, global warming has led to longer periods of hot weather in summer, an increase in the magnitude of typhoons, and more frequent instances of localized torrential rain. Similarly, the creation of fluorinated gases, which was viewed as a revolutionary breakthrough at the time, ultimately led to damage being caused to the planet's ozone layer. Plastic was also a revolutionary material that made life more convenient for people, but plastic waste has polluted the oceans and other ecosystems. Issues of this kind are having a pronounced impact on people's daily lives.



From our point of view, as a business enterprise that operates all over the world, transformations in the natural environment and the resulting natural disasters, as well as the growing threat posed by environmental pollution, constitute significant risks. On the other hand, it is also fair to say that, taking rising temperatures as an example, if this leads to an increase in the frequency with which people do the laundry, then there will be an increase in the amount of washing detergent used. Demand for facial-cleaning wipes and water conservation products will also rise, so climate change will also create new business opportunities to some extent.

At the same time, if a business enterprise is unable to adapt and respond to issues such as declining birthrates, the aging of the population and the digitalization of society—the precise impact of which varies from region to region and from country to country—then that enterprise can expect to miss out on business opportunities. If we are able to provide products that are carefully tailored to meet the needs of individual countries and regions and of particular generations, then not only will this generate enormous business opportunities for our company, we will also be able to make a positive contribution to society as a whole, including our consumers and customers in general.

By contributing proactively toward the building of a society in which diversity is respected and which is free from poverty and discrimination, not only will we be able to maintain a strong relationship with society, we will also be able to create employee-friendly workplaces and enhance employees' motivation and satisfaction. If, on the other hand, we fail to address these issues, then we will find it difficult to recruit and retain first-rate personnel, and will find ourselves losing important human assets.

In order to respond to the risks outlined above and take advantage of the opportunities that are associated with them, it is important for us to review the approach to doing business that we have developed over the years, and to use our products to provide value for society in a responsible manner.

For Kao to realize its vision by 2030, it needs to utilize its strengths to address environmental and social problems, and take up the challenge of boldly facing up to the transformations taking place around it, so that Kao can give back to all of its stakeholders, including consumers, customers, employees, shareholders, and society as a whole. Kao will continue to challenge itself, in a way that lives up to its corporate philosophy, to ensure that Kao continues to be viewed by the world in general as a business group that is of real value and importance to society.



Undertaking research to create environmentally conscious products.



Hand-washing awareness raising activity aimed at improving hygiene habits.

CEO Message



Transforming ourselves to drive change. Through our distinctive ESG activities “Kirei Action,” we will generate significant growth

The Kao Way, our corporate philosophy is the foundation of all corporate activities. Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world. By transforming ourselves to drive change, we will become a corporate group with a global presence by 2030 and be able to continue delivering a high level of returns to stakeholders.

Amid major changes to the society and the natural environment, we position not only our financial strategy but also our non-financial strategy and initiatives as being among our most important management priorities for ensuring the sustainable business growth of the Kao Group now and in the future. Therefore, we are launching major global ESG activities for the group that we have named “Kirei Action.” We are designing and conducting these activities with our unique approach to help people throughout the world to realize the kind of future we want create. This requires a serious commitment to addressing the social issues presented in the Sustainable Development Goals (SDGs) and recognition of trends including strict environmental regulations and ethical consumption.

The Kao Group Mid-term Plan K20 is an important step toward realizing this goal. In FY2018, as the second year of K20, we made further progress in reflecting an ESG perspective in our *Yoki-Monozukuri* to benefit society. We also took steps to further enhance our corporate value with the goal of fostering a distinctive corporate image unique to Kao that makes effective use of our existing businesses and strategic brands. As a result, we have achieved nine consecutive years of increased profit, six consecutive years of record high operating income and twenty-nine consecutive years of dividend growth.

The Kao Group’s business is now spreading around the world. While the regions in which we operate and our product categories have multiplied in number, our commitment to being a valued source of support for consumers and customers and to enriching both people’s lives and society as a whole has remained unchanged since our founding.

The contributions we make to creating sustainability in society are investments in the future. We are committed to living up to expectations that we will direct the management of our business based on new ideas not bound by existing concepts. We at the Kao Group will boldly take on challenges with a unique approaches while continuing to value the mission entrusted to us by our founder.



Michitaka Sawada

Representative Director
President and Chief Executive Officer

CEO Interview



Q1

What did the Kao Group achieve in FY2018?

First, I am pleased to say that we have achieved nine consecutive years of increased profits, six consecutive years of record-high operating income and twenty-nine consecutive years of increased cash dividends. I would like to express my deep appreciation to the many stakeholders whose support has contributed to this result. We also focused on revitalizing our Cosmetics Business, which had been struggling, and achieved results there. We improved operating income by more than 10 billion yen, and our operating income margin also approximately doubled over the previous year to around 10%. Looking ahead, we will shift to

strengthening our brands, which is a pillar of our cosmetics growth strategy that we announced in May 2018. Our mass skin care brand *Bioré* continues to grow and has established itself as a global brand with a scale of 100 billion yen. Alongside this, we have built on our ESG activities, which form the core of our non-financial activities. We established the new ESG Division in July 2018, led by senior management from Kao USA, and are conducting ESG activities as a long-term investment. These activities will ensure that we increase our corporate value in the long term as well as achieve a greater global presence for the Kao Group.

Q2

Could you describe the social significance of Kao's initiatives in FY2018?

I think it is fair to say that FY2018 was the year we truly embarked on *Yoki-Monozukuri* from an ESG perspective. We always consider the ways we can benefit society as we conduct our activities. As long as we stay true to this, it will lead to profitable growth. If we have profitable growth, then we can fulfill our social role as a public institution and provide stakeholders with a high level of returns. All of the products and services we offer have been designed with considerations for their environmental and social benefit. In October 2018, we released "Our Philosophy & Action on Plastic Packaging," which defines our basic approach, activities conducted to date, and future direction. We must not think of selling products as the end of our responsibility, but instead must take responsibility and plan down to the final processing. We are serious about taking action to solve the problem of plastic waste, including

plastic in the ocean, so that we can reduce our environmental impact across the entire product lifecycle.

In recognition of our FY2018 activities, we were selected for the World's Most Ethical Companies® list in February 2019. We are the only Japanese company that has been selected for the list for thirteen consecutive years, since it was established in 2007. Our core value of Integrity supports our ESG activities. We will continue to conduct our activities while keeping in mind the spirit of *Integrity* that runs through the Kao Way, our corporate philosophy.

Keynote speech at the 2018 Fabric and Home Care World Conference

In October 2018, the Fabric and Home Care World Conference was held in Florida, USA, with 450 participants from 33 countries and regions around the world.

In my keynote speech, I talked about how the essence of cleaning was not just the functional value of removing dirt, but the act of showing care for others. What I mean is that cleaning has an emotional component, and detergent has the power to connect people to each other and to society.

I called on our industry to conduct product development from this new perspective and to work together to make contributions to resolving environmental and social problems.



Q3

Could you describe Kao's future direction and specific actions you are taking?

FY2019 is positioned as a decisive year for us. I would like this to be the year when we really see the fruition of what we have accomplished in the first two years of K20 as well as the issues that have emerged and the technologies and expertise we have built up. Specifically, we will take actions in response to the increase in Japan's consumption tax and advance our business activities with primary focus on further development of the Cosmetics Business, reinforcement of the Consumer Products Business in the Americas and Europe and revitalization of the Baby diaper business. In addition, we will undertake commercialization of five technologies that we announced at the Technology Innovation session held in November 2018. Building on our brands is key to the further development of the Cosmetics Business, which is showing recovery. We will pursue this by concentrating investment in selected focus brands, namely 11 global brands (G11) and eight regional brands (R8), launching new products, expanding our global operations and others. Consumer products in the Americas and Europe have struggled, and starting in FY2019 we switched to a locally led production structure. The Hair care products in the Americas and Europe is particularly challenging. Globally, hair care is becoming more of a collection of "small mass markets*," and companies need to be able to quickly offer products that go ahead of the times. The trend of ethical consumption is also on the rise, and we will act accordingly with a new organization while incorporating an ESG perspective. Our business activities in China are key to the Baby diaper business. A range of factors was behind the challenging business conditions we experienced in FY2018, and we are seeking to revitalize the business in FY2019 with a more flexible strategy. Considering the larger infant population globally, the Baby diaper business still has room for growth. I intend to apply the technological capabilities of the Kao Group to this end.

We announced the five technologies of fine fiber, RNA monitoring, Created Color, Bio IOS and Package RecyCreation at the Kao Group Technology Innovation Session. We received a strong response after the announcement and a lot of feedback about our technology applications. Based on this, I plan to move all of these technologies to the commercialization planning stage in 2019. We intend to elevate these technologies to innovations that hold the power of social transformation.

We will also build on our ESG activities. We have formulated the Kirei Lifestyle Plan, which embodies our ESG strategy, and we will be taking concrete steps to put this plan into effect globally in FY2019. The actions of our individual employees play an important role in this, and we will be sharing our ideas and beliefs with them as we move forward.

We established the Strategic Innovative Technology Team in April 2018 and got it fully up and running. Using advanced technology such as AI, IoT, and robots in ways that embody who we are will be an important part of our corporate activities going forward. Advanced technology will not only prove useful in product development such as in business, research and production, but also in communicating our value proposition such as sales and marketing and in building up human resources including personnel development and hiring. We will take steps toward in FY2019 while strengthening our cooperation with outside partners.

FY2019 is certain to be a decisive year for us. We will push forward without fear of failure. And we are aiming to achieve ten consecutive years of increased operating income, seven consecutive years of record operating income, and thirty consecutive years of increased cash dividends. The results of this will facilitate achievement of K20, and we will be united in this effort as a group.

* Sub-markets smaller than the mass market that maintain a certain scale (term defined by Kao).

Q4

Could you talk about your views on further enhance corporate value?

Building on our ESG activities and *Monozukuri* from an ESG perspective are important. The foundation for this is keeping in mind that the essential nature of our corporate activities is serving society. If we can do this well, then we will absolutely make contributions to society, and this will also lead to profitable growth. In turn, this will lead to increased corporate value in the long term.

However, since natural disasters are frequent and the business environment is challenging and filled with social and economic uncertainties,

achieving this is not easy. In addition, the world around us is changing in more disruptive ways. Amid this situation, it is important to not only quickly adapt to change but also to instigate change ourselves. We made K20's slogan "Transforming ourselves to drive change," and putting this slogan into practice will make it possible.

The Kao Group will continue to transform. And, we will absolutely become a company with a global presence. I hope to have your continued support.

Dialogue with Shareholders

To enhance corporate value, we are seeking to create opportunities for dialogue with shareholders and institutional investors. This dialogue will deepen their understanding of Kao and serve to create sustained company growth and mid- to long-term corporate value.



Genba* Roundtable Meeting

The Kao Way contains the principle of *Genba*-ism, and we are holding *Genba* Roundtable Meetings at Kao Group locations around the world. Here, top management communicates their thoughts and aspirations for the Kao Group directly to employees working at local sites, exchange of opinions with them, and reflect feedback from local sites in management operations.



* *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.

ESG Strategy



David J. Muenz

Executive Officer
Senior Vice President,
ESG, Global

By introducing ESG (Environmental, Social and Governance) factors into our business strategy, we aim to expand our business and provide even better products and services to consumers and society.

Imagine Kao supporting billions of people to live a more sustainable lifestyle. This is a bold idea. But it is an idea that the world needs now more than ever, and an idea we are uniquely placed to make real. It is an idea that has the potential to accelerate our business growth and value too.

We are acting on this bold idea because the context in which we operate is changing rapidly. Issues like climate change, aging societies, resource scarcity, plastic waste in the oceans, together with rapidly advancing technologies are transforming the very foundations of our markets and shifting stakeholder needs. This is particularly true of the next generation of consumers in growth markets. These younger consumers want to make a positive impact on the world and have higher expectations of business to match. They want quality products that protect the environment, transparency, and brands that allow them to live their values.

In the face of this changing landscape, we need a plan that will make us resilient and help us grow. That is why we set up a new ESG Division in July 2018 and are launching our new ESG strategy that builds on the strengths of our previous sustainability plans but pushes our ambition, commitments and 2030 goals to a level of global leadership.

Ever since Kao began business in 1887, we have always put consumer needs at the heart of everything we do. In 2019, those consumer needs have changed, but our approach remains. Our new ESG strategy outlines how we will serve our consumers' needs and desires to live more sustainable lifestyles that contribute to a more sustainable world. We call it the Kirei Lifestyle – living a beautiful life inside and out.

To deliver this, we need to step up innovation at every level of business – from procurement to production, from point of use to product disposal.

Our actions need to offer much more than just incremental improvements, marking a real step change from past efforts. We will call these new actions our Kirei Actions. As always, excellence in innovation and technology – the hallmark of Kao – will be key to our success. And, with the R&D assets that we have amassed over the years, we will develop new sustainable innovations, and work with

like-minded partners across industries to make them scalable and maximize their impact.

I firmly believe that this renewed commitment to, and action on, ESG will play a pivotal role in achieving Kao's ambition to enhance our presence on the global stage, and earn the support and trust of those we serve.

Governance structure

A robust governance structure will ensure that Kao harnesses the power across the organization to successfully activate the ESG vision and strategy.

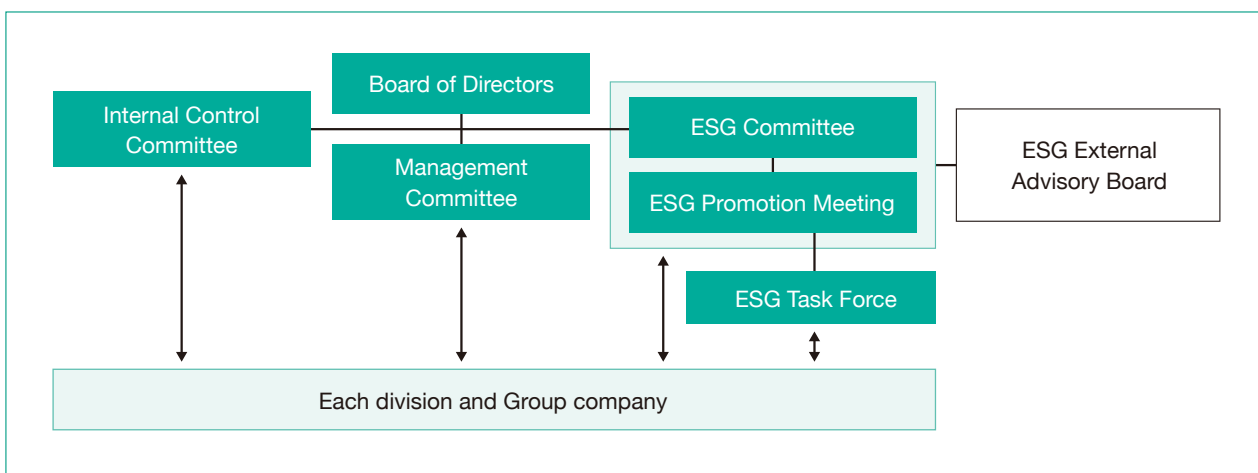
The ESG Committee has been set up directly under the Board of Directors, above the Management Committee, as a body that has responsibility to approve and manage ESG direction, strategy, and performance for the long-term success of Kao.

Under the Committee, the ESG Promotions Meeting has been established to shape and drive ESG strategies. Comprising leaders of businesses,

functions, and regions across the company, it plays a vital role in integrating ESG into the business strategy and operations. To enable us to develop plans and activate them quickly, the ESG Promotion Meeting will develop and assign task force teams, as required, to address topics of priority.

An ESG External Advisory Board, made up of experts from diverse fields, has been established. The purpose of this Board is to secure global input that will enable us to develop world-class plans and actions, as well as open up opportunities for external collaboration and partnerships.

ESG Promotion Structure



Kirei Lifestyle Plan

Kao's ESG strategy has been developed and designed to serve people's needs, behaviours and desire to live sustainable lifestyles that contribute to a sustainable world. We call this the Kirei Lifestyle, and we call the vision, commitments and actions that contribute to that lifestyle

Our Vision

A Kirei lifestyle means living a beautiful life inside and out.

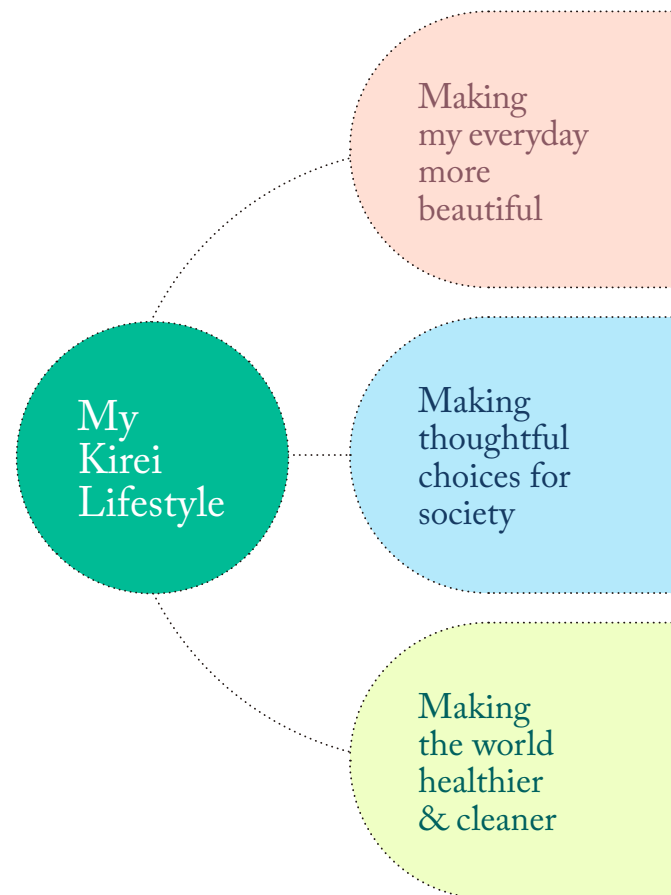
A Kirei lifestyle is full of compassion. Where making your own life clean and beautiful never compromises the beauty and cleanliness of the world around you.

A Kirei lifestyle is enjoying today, with the peace of mind that those joys will be there tomorrow.

It's the chance to express who you truly are, with the confidence that you are walking the right path. Even in the smallest, everyday moments.

That's why at Kao, everything we do is in service of this lifestyle. It's why we do what is right, not what is easy. We put our innovation and imagination to the task of enriching lives by finding ways for people the world over to live the Kirei lifestyle.

Our ESG Commitments and Actions



the Kirei Lifestyle Plan. Kao will strive to create a long-lasting impact to society through the Kirei Lifestyle Plan.

To achieve the Kirei Lifestyle that people desire, Kao will use its Research and Development assets and technologies to create innovations with long-lasting positive impact. To deliver our vision of a Kirei Lifestyle for all, we have set out three ambitious 2030 commitments supported by 19 leadership actions.

Kao Commitments by 2030

Kao Actions

BY 2030

We will aim to empower all people, at least 1 billion by 2030, to enjoy more beautiful lives – greater cleanliness, easier aging, better health and confidence in self expression

IMPROVED
QUALITY
OF LIFE

HABITS FOR
CLEANLINESS,
BEAUTY
& HEALTH

UNIVERSAL
PRODUCT
DESIGN

SAFER
HEALTHIER
PRODUCTS

BY 2030

100% of Kao brands will make it easy for people to make small but meaningful choices that, together, will shape a more resilient and compassionate society

SUSTAINABLE
LIFESTYLE
PROMOTION

PURPOSE
DRIVEN
BRANDS

TRANSFORMATIVE
PRODUCT
INNOVATION

RESPONSIBLY
SOURCED RAW
MATERIALS

BY 2030

100% of our products will leave a full life cycle environmental footprint that science says our natural world can safely absorb

DECARBONIZATION

ZERO
WASTE

WATER
CONSERVATION

AIR & WATER
POLLUTION
PREVENTION

EFFECTIVE
CORPORATE
GOVERNANCE

FULL
TRANSPARENCY

RESPECTING
HUMAN
RIGHTS

INCLUSIVE
& DIVERSE
WORKPLACES

EMPLOYEE
WELLBEING
& SAFETY

HUMAN
CAPITAL
DEVELOPMENT

RESPONSIBLE
CHEMICALS
MANAGEMENT

Walking the right path

A healthy planet for future generations

Kao is committed to reducing the amount of plastic used in its product container and packaging including offering refill packs so that consumers can reuse their original ones. To further reduce our environmental impact, we are now seeking to make our plastic containers and packages fully recyclable.



[Film refill pack]

Promoting container reuse with refill packs

Consumers can refill and reuse original product containers. This greatly reduces plastic consumption.



[Raku-raku Eco Pack Refill]

Making it easier to refill containers without wasting or spilling

The *Raku-raku Eco Pack Refill's* new design updates the concept of refill packs. It's now even easier for anyone to use them, contributing to their increased usage.

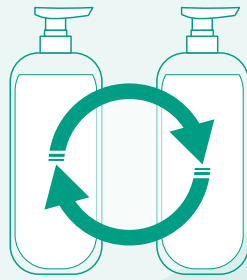


[Smart Holder]

Using *Raku-raku Eco Pack Refills* without the original container

This new holder allows consumers to use *Raku-raku Eco Pack Refill* packs directly, without needing to refill anything.





Developing 100% recyclable mono-material film packaging

Film containers and packages use multiple layers of materials to protect their contents, making recycling more difficult. If they can be made using a single type of material, it will greatly reduce their environmental impact. We are now conducting research to make this a reality.



Innovation that enriches daily life across the world

We are committed to enriching daily life for people around the world—now and in the future. That is why Kao is working to help resolve social issues through the development of new raw materials and technologies.

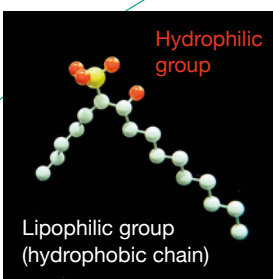
Sustainable, next-generation detergent base Bio IOS

Bio IOS is a new surfactant that was created from Kao's interface science research. It blends easily with oil and is highly water-soluble, properties that allow it to perform better than existing products and make it perfect for use as a detergent base. Bio IOS is made from the material left behind after extracting edible palm oil from the fruit of the oil palm. Until the creation of Bio IOS, there had been no effective way to use this leftover material. As the world's population continues to increase, surfactant use is also expected to rise. We are pursuing sustainable procurement of raw materials through the widespread use of Bio IOS, an innovative new surfactant.



Oil palm fruit, the main raw material in surfactants





Bio IOS molecular structure model

Its special structure has a long lipophilic group with a hydrophilic group at its midsection.

Hydrophilic group: part with high affinity to water
Lipophilic group (hydrophobic chain): part with high affinity to oil

Detergent that completely transforms the conventional concept of cleaning

The liquid laundry detergent *Attack ZERO* is the first commercialized product to use Bio IOS, a sustainable surfactant. The properties of Bio IOS allow it to penetrate deep into fabrics and demonstrate powerful cleaning action, all while leaving little dirt or detergent residue after rinsing, and maintaining its effectiveness even in cold water. Because everyone around the world deserves cleanliness in their daily lives, we will continue to explore the potential applications of Bio IOS from various angles.



Kao Group's Management Vision

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

Kao was able to meet all management and numerical targets adopted in K15 (FY2013 to FY2015), Kao's first publicly announced mid-term plan. Kao will further accelerate efforts to achieve our vision by 2030. K20 represents an important milestone toward achieving our vision by 2030, and we are making steady progress toward K20's achievement. Kao has already started taking action to reach our vision of becoming a company with a global presence by 2030.

FY2013 to FY2015

Mid-term Plan K15

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

Review of Numerical Targets and Performance			
	Numerical targets	Results	Achievement ratio
Net sales	1.40 trillion yen	1.47 trillion yen	105%
Operating income	150.0 billion yen	164.4 billion yen	110%
Sales ratio outside Japan	Over 30%	35%	Achieved

Formulated detailed strategies and steadily achieved results

FY2017 to FY2020

Mid-term Plan K20*

Mid-term plan focused on the following three points

- Commitment to fostering a distinctive corporate image**
 - Become a company that is always by the consumer's side
- Commitment to profitable growth**
 - Continue to set new record highs for profits
 - Aim for like-for-like net sales CAGR of +5%
 - Operating margin of 15%
 - Three 100 billion yen brands (*Merries* baby diapers, *Attack* laundry detergents, *Bioré* skin care products)
- Commitment to returns to stakeholders**
 - Shareholders: Continuous cash dividend increases (40% payout ratio target)
 - Employees: Continuous improvement in compensation, benefits and health support
 - Customers: Maximization of win-win relationships
 - Society: Advanced measures to address social issues

Progress over FY2018

FY2018 Results	
Record highs for operating income	Achieved record highs for profits for the sixth consecutive year
Sales growth	+1.2% year-on-year (like-for-like*2 1.3%)
Increase in operating margin	Up 0.1 point year on year
Dividend increases	+10 yen year on year
Cultivation of 100 billion yen brands	Continued to successfully cultivate our three 100 billion yen brands
Improvements in employee compensation	Continuously improved remuneration levels and human resource systems
Improvements in health support	Expanded initiatives to promote health (Selected as a Health and Productivity Management Stock Selection for the fourth consecutive year)

An important milestone toward achieving our vision by 2030

The ability to realize sustainable increases in profits and dividends

“Addressing social issues” and “Expanding value creation domains” through creativity that offers innovation and change

What Kao Aims to Be by 2030 ^{*1}

Make Kao a Company with a Global Presence

A distinctive corporate image

A high-profit global consumer goods company

A high level of returns to stakeholders

Targets for 2030

Numerical Targets	
Net sales	2.5 trillion yen (1.0 trillion yen outside Japan)
Operating margin	17%
ROE ^{*3}	20%

▶ aim to exceed these targets

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

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

^{*3} Ratio of net income to equity attributable to owners of the parent.

Financial and Capital Strategies



While maintaining a stable financial foundation and actively investing in business growth, Kao will continue to improve its corporate value and achieve long-term stakeholder returns.

Kenichi Yamauchi

Executive Officer
Senior Vice President, Accounting and Finance, Global

Financial Foundation

Kao's Financial Foundation (EVA® Management)

We use Economic Value Added® (EVA) as its principle management metric. EVA® reflects capital cost and is highly correlated with corporate value. Guided by EVA® management, which places importance on both continuous increases in corporate value and long-term profits for all our stakeholders, we have established a sound and well-balanced financial foundation with high profitability and cash flow creation capability.

In order to realize further growth, while taking risks and actively promoting business activities, we also emphasize shareholder returns. While achieving cash dividend increases for twenty-nine consecutive fiscal periods and share repurchases totaling 543.8 billion yen, we have maintained a stable financial foundation.

At an early stage from 1985, we began unifying payments by its domestic group companies, and by centralizing funds, promoted their effective use.

In recent years, we have striven to centralize global funds through the introduction of a global cash management system (netting, pooling, etc.).

During FY2018, the second year of K20, our operating income was 13.8% with an operating income of 207.7 billion yen, breaking the company's highest profit record for the sixth year in a row. In the Cosmetics Business where there had been some concerns, the operating income improved to 9.9% due to new growth strategies, and further profit growth is expected. As a result of improving EVA® improvements through continued shareholder returns, the company's ROE has reached nearly 20%.

Note: EVA® is a registered trademark of the Stern Stewart & Co., a U.S. consulting corporation.

Use of Cash Flow and Shareholder Returns

Kao effectively utilizes its stable operating cash flow as shown below and aims for further growth.

Investments for future growth
(Capital expenditures, M&A, etc.)

Steady and continuous cash dividends (40% payout ratio target)

Share repurchases and early repayment of interest-bearing debt including borrowings

Capital Expenditures/M&A

By using EVA® to make investment decisions, we promote proactive capital expenditures and M&A to maintain business growth.

In the Consumer Products Business, centered around Cosmetics Business, Skin Care and Hair Care Business and Human Health Care Business, we have strengthened the capacity of our domestic production bases to respond to demand in Japan and China, and have also made proactive capital expenditures in Asia where there is a remarkable amount of growth. Moreover, in the Americas and Europe, we have been carrying out M&A in B-to-B businesses such as salon business and Professional-use products business, which are expected to have a synergy with existing businesses.

Furthermore, in the Chemical Business, we have further strengthened our production bases globally, and promoted M&A to accelerate the global business development of our core technologies that help reduce the environmental impact.

By leading to mid- to long-term profitable growth while continuing future growth investment, we will strive to enhance our corporate value through continuous EVA® improvement.

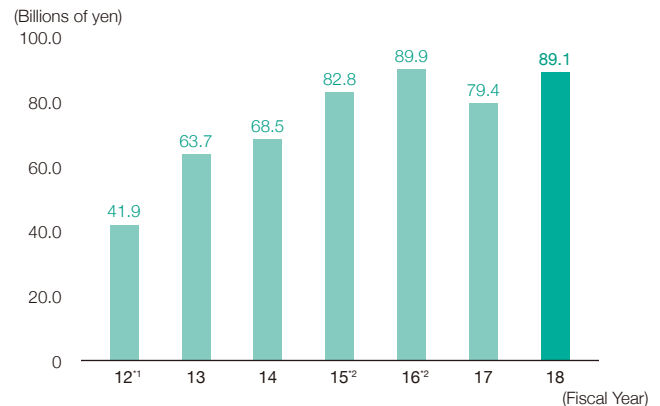
Cash Dividends/Share Repurchases

We place emphasis on steady and continuous cash dividends, and in FY2018, achieved dividend increases for the twenty-ninth consecutive year. Having been generating high level of cash flows from operating activities in recent years, we have greatly increased cash dividends per share in relation to the growth.

Additionally, taking into consideration the balance between our cash reserves and growth investment, in order to improve capital efficiency from the perspective of EVA®, we flexibly pursue the share repurchases and retirements of treasury shares. Share repurchases up until the 2018 totaled 174 million shares, which amount to 543.8 billion yen.

We have made a commitment to deliver high level of stakeholder returns, and aim to continue dividend increases.

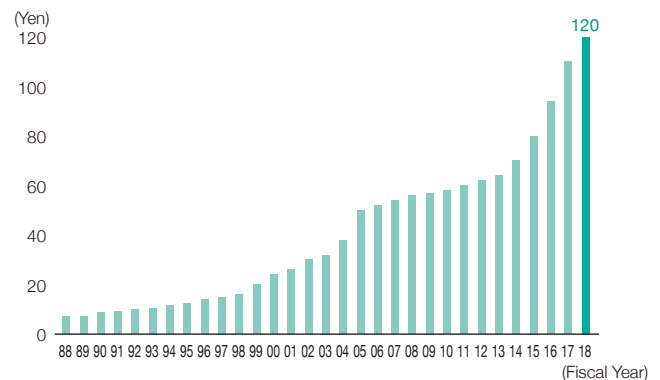
Trend in Capital Expenditures



*1 Kao changed its fiscal year end for FY2012 from March 31 to December 31.

*2 The Kao Group adopted IFRS in FY2016. Figures for the fiscal year ended December 31, 2015 have been recalculated based on IFRS.

Performance of Dividends per Share



Status of Share Repurchases

