Kirei — Making Life Beautiful

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

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

We believe these moments and the positive feelings you share with others have the power to shape the future. We want minds, lives and society to be Kirei—Making Life Beautiful.
Transforming ourselves to drive change, we will generate significant growth through our distinctive ESG activities “Kirei” Action.”

I would like to thank you, our shareholders, for your exceptional understanding and support of the Kao Group’s business and corporate activities.

While passing down our Yoki-Monozukuri spirit, we have been conducting corporate activities aimed at achieving the wholehearted satisfaction and enrichment of the lives of people globally and contributing to the sustainability of the world. It has been 130 years since we launched the first high-quality bar soap produced in Japan. During this time, the society and economic environment have seen dramatic changes, and people’s lifestyles have also changed accordingly. Along with this, we have been transforming ourselves and achieved significant growth.

Yoki-Monozukuri implemented by the Kao Group to date has also pursued environmental consciousness and user friendliness while staying close to society and people and quickly understanding their needs. However, the recent changes taking place in the business environment and society, increase in the amount of information available caused by the digital revolution and the resulting changes in consumer awareness, are unprecedented in terms of their speed and scale. Along with this, social issues beginning with the worsening global environment are rapidly increasing in severity, and the responsibility of global corporations has become even heavier.

Therefore, in FY2019 we declared our commitment to shifting to ESG-driven management. This is not an extension of our existing value of Yoki-Monozukuri, but a way to realize a more sustainable society focused on the future and management efforts to do this.

In addition, we announced our ESG Strategy, the “Kirei Lifestyle Plan,” which further integrates ESG into our business strategy, in FY2019, the third year of the Kao Group Mid-term Plan 2020 (K20).

The “Kirei Lifestyle Plan (KLP)” was established based on the Kao Group’s Yoki-Monozukuri spirit to serve people’s needs and desire to live a more sustainable lifestyle. The Kao Group defines this desired life as the “Kirei Lifestyle,” and aims to advance innovations in all aspects of business to contribute even more to society.

Kao continued to grow in FY2019, achieving 10th consecutive year of increases in operating income, 7th consecutive year of record-high operating income and 30th consecutive year of increases in cash dividends.

While staying close to consumers and customers, we at the Kao Group will boldly take on challenges so that we can contribute to the lives of people globally and the sustainability of the world.

I would appreciate your continued understanding and support of the Kao Group’s business and corporate activities.

Michitaka Sawada
Representative Director
President and Chief Executive Officer
CEO Interview

The Kao Group Mid-term Plan 2020 (K20) has three main commitments. The first commitment is to foster a distinctive corporate image, the second is profitable growth, and the third is returns to stakeholders. In short, the message these commitments send is that the group intends to place more focus on enhancing corporate value in the future.

We positioned FY2019 as a decisive year to achieve K20, and we pursued activities accordingly from both non-financial and financial perspectives. We saw a great deal of progress from non-financial perspectives. Related to the new ESG Division that we established in 2018, in April 2019 we announced our ESG Strategy, the Kirei Lifestyle Plan unique to Kao, and in September, we declared to make a major shift to ESG-driven management. We are now working as a united group to advance the KLP. I would like to see us produce major results at an early stage.

Regarding our "technology innovation that will underpin the Kao Group in the future" which we announced in November 2018, we have advanced all five technology innovation themes to turn to practical use. In particular, we would very much like Fine Fiber Technology, which is able to create a layered, ultra-thin membrane with potential application in many fields, including cosmetics and medical treatments and therapies, and RNA Monitoring, which is able to help predict the skin’s future condition and the state of health, to effect revolutionary social changes. In addition, we have actively taken steps to use our human capital including advancing women’s participation in the workplace, to ensure compliance, and to support employees’ health, for which we have been highly evaluated by various outside bodies.

Meanwhile, from a financial perspective, we were able to achieve 10th consecutive year of increases in operating income, 7th consecutive year of record-high operating income, but sales and net income did not reach the level of the previous year, making 2019 a challenging year for us. Even so, the Cosmetics Business recorded strong growth, increasing 9% on a like-for-like basis. The Cosmetics Business’ operating margin rose to 13.7%, achieving the 2020 sales target of 300 billion yen and an operating margin of 10% one year ahead of schedule. As for cash dividends, we increased 10 yen over the previous year to 130 yen per share, which means that we have offered increased cash dividends for 30 consecutive years, the longest period of increased dividends in Japan.

FY2020 is the final year of K20. We intend to achieve our commitments to foster a distinctive corporate image, achieve profitable growth and provide stakeholders with a high level of returns by all possible means. To do this, conducting initiatives with even greater momentum from both non-financial and financial perspectives is key. We will achieve profitable growth while maintaining our core focus on ESG-driven management, leading to enhance corporate value.

Q1 What did the Kao Group accomplish in FY2019 toward the achievement of K20?

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Announcement of our ESG Strategy, the Kirei Lifestyle Plan unique to Kao, and declared to make a major shift to ESG-driven management

We announced our ESG Strategy, the Kirei Lifestyle Plan (KLP), in April 2019 and declared the direction we are taking with specific ESG activities as well as our ambitions for the future. That September, we declared to make a major shift to ESG-driven management as a new challenge for the Kao Group. This declaration further specifies the KLP announced in April and represents the full start of the KLP activities, and at the same time, signifies that we will implement management activities to elevate the concept of Yoki-Monozukuri that we have built up so far in our group activities to “Yoki-Monozukuri from an ESG perspective.” By further enhancing our actions taken with the environment and society in mind, we aim to become a company with a global presence.
The Kao Group declared to make a major shift to ESG-driven management in FY2019. What are your thoughts about the ESG Strategy, the Kirei Lifestyle Plan?

Q2

The Kao Group’s ESG Strategy has been developed and designed to serve people’s needs, behaviors and desire to live sustainable, authentic lifestyles. We define these lifestyles as the Kirei Lifestyle, and we established the Kirei Lifestyle Plan (KLP) as our distinctive ESG Strategy comprising the vision, commitments and actions that contribute to it.

The KLP consists of three pillars. The first is “Making my everyday more beautiful,” the second is “Making thoughtful choices for society,” and the third is “Making the world healthier and cleaner.” Universal product design is one action comprising the first pillar, “Making my everyday more beautiful.” We have set the target to have 100% of our new and improved products conform to the Kao Universal Design Guidelines by 2030. Transformative product innovation is one action comprising the second pillar, “Making thoughtful choices for society.” As part of this, we aim to offer at least 10 products by 2030 that will have a large, positive impact on people’s lifestyles. Zero waste is one action comprising the third pillar, “Making the world healthier and cleaner.” By 2030, we intend to have 300 million containers that use our innovative film packaging in the market annually, and we are conducting activities to generate zero waste that is not recycled from all our business sites. We are also implementing initiatives for Integrity, which forms the basis of the KLP, such as achieving effective corporate governance.

To turn the KLP into reality, we in management must be prepared to innovate current procedures, approaches and concepts that are not mere extensions of the past but represent new approaches and breakthrough levels of engagement. It is also important that we will strive to act with responsibility until product disposal (waste treatment). To do this, we must comprehensively advance ESG-related Essential Research and propose innovations that connect to the practical realization of the KLP. As a first step in this, we are advancing innovations in the three areas of Reduce, Recycle and Social. We will also be offering new brands that embody the KLP.

It is important to start from doing what we can do now, but as a group we will combine forces to proactively and boldly implement our strategy so that we do not stop with doing only what can be done now.

Q3

What kind of company does Kao aim to be by 2030?

We aim to make Kao a company with a global presence by 2030. To do this, we must establish a distinctive corporate image, become a high-profit global consumer goods company, and provide a high level of returns to stakeholders. In other words, we must seek to enhance our corporate value from every angle. K20 is an important milestone, and we are serious about taking action to achieve our targets in FY2020. We must take action to turn our ESG progress with profitable growth. Implementing our ESG Strategy will have major impacts on people, on society and on the planet, and as a result, we will achieve profitable growth and give our stakeholders returns with the earned profit, and connect this to further enhancement of our ESG activities. This cycle is essential.

Supporting these activities is the Kao Way, the group’s corporate philosophy. Integrity becomes all the more important in a world undergoing dramatic change.

Without forgetting the value of Integrity that forms the basis of the Kao Way, we will squarely take on challenges and intently pursue our commitment to achieve our group’s mission to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world. I hope to have your continued support.

Technology innovation that will underpin the Kao Group

In November 2018, Kao held a session 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. Our technology innovations began to take concrete shape in 2019. In April 2019, we launched Attack ZERO laundry detergent featuring Bio IOS, our new detergent base that offers the highest cleaning power in our history. Then in November, we began a collaborative project with Preferred Networks, Inc. aiming to realize practical application of our sebum RNA monitoring technology. And in December, we launched our Fine Fiber Technology business.
Kao Group’s Management Vision
What Kao Aims to Be and Achieve for Society by 2030

Progress and Road Map for the 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 enhance Kao’s ability to formulate and execute detailed strategies.

<table>
<thead>
<tr>
<th>Review of Numerical Targets and Performance</th>
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<tbody>
<tr>
<td><strong>Net sales</strong></td>
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<tr>
<td><strong>Operating income</strong></td>
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<tr>
<td><strong>Sales ratio outside Japan</strong></td>
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</tbody>
</table>

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% \(^1\)
  - 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

<table>
<thead>
<tr>
<th>Progress over FY2019</th>
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<tbody>
<tr>
<td><strong>FY2019 Results</strong></td>
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<tr>
<td>Record highs for profits</td>
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<tr>
<td>Sales growth</td>
</tr>
<tr>
<td>Increase in operating margin</td>
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<tr>
<td>Dividend increases</td>
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</table>

Cultivation of 100 billion yen brands
  - Continued to successfully cultivate our three 100 billion yen brands

Improvements in employee compensation
  - Three brands achieved the target sales in FY2017 and continued to surpass 100 billion yen

Health supports
  - Expanded initiatives to promote health
    - Selected as a Health and Productivity Management Stock Selection for the 5th consecutive year

An important milestone toward achieving our vision by 2030

**FY2030**

What Kao Aims to Be \(^{\dagger}\)

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**

<table>
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<tr>
<th>Numerical Targets</th>
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<tr>
<td><strong>Net sales</strong></td>
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<td><strong>Operating Margin</strong></td>
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<td><strong>ROE</strong></td>
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</tbody>
</table>

"aim to exceed these targets"

**ESG Strategy**

Making my everyday more beautiful
- Making thoughtful choices for society
- Making the world healthier & cleaner

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

\(^1\) Like-for-like growth excludes the effects of currency translation.

\(^{2}\) Ratio of net income to equity attributable to owners of the parent.
Kao’s Corporate Philosophy

Fundamentals That Support Kao’s Value Creation

The Kao Way

Mission
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, through Yoki-Monozukuri, meaning our strong commitment to provide products and brands of excellent value created from the consumer and customer’s perspective.

Values Unique to Kao
The three Values express what we believe in. We do not conduct business or take actions that do not conform with these Values. Above all, we believe in achieving Innovation and Yoki-Monozukuri built upon Integrity, and this has become our distinctive foundation.

Yoki-Monozukuri
Yoki-Monozukuri refers to developing innovative products and brands by determining the needs of consumers and fusing them with seeds of our original technologies. We create dynamic synergy by uniting the creativity and energy of every employee and division. The driving force of Yoki-Monozukuri is the passion of individual members as the source of our corporate strength. We reinvest the profits earned through Yoki-Monozukuri toward the continuous creation of products and brands of excellent value. This cycle of Yoki-Monozukuri earns us the respect and trust of all of our stakeholders, thereby achieving profitable growth.

Innovation
We improve and innovate our products, brands and business processes in order to stay one step ahead of changes in consumer lifestyles and the business environment. We proactively seek new opportunities and challenges to always continue moving forward while maintaining a healthy sense of dissatisfaction with the status quo. We regard difficulties as opportunities for self-improvement and continue to grow individually and as a corporation by overcoming them.

Integrity
We treat others with respect and fairness, and pursue our work with sincerity and diligence in an effort to optimize the performance of individuals and the corporation as a whole. We behave lawfully and ethically, and earn the respect and trust of all stakeholders through sound and honest business activities. As a responsible corporate citizen, we seek to ensure the safety of our products and operations, and proactively engage in solving social issues including environmental issues.

The origins of the Kao Way can be traced back to the company’s founder, Tomiro Nagase. In 1887, Tomiro Nagase founded Nagase Shoten, a Western sundry goods store. He launched Kao Sekken (Kao Soap) three years later in 1890. His goal was to create a high-quality facial soap and offer it at an affordable price to contribute to cleaner and more comfortable lives for people at the time, when the only choices available were poor-quality domestic soap and high-priced imported soap. This is the origin of our mission “to strive for the wholehearted satisfaction and enrichment of the lives of people.”
Kao's History

130 Years Since the Launch of Kao Sekken

Kao's history began with the launch of Kao Sekken (Kao Soap) in 1890. Since then, we have continued to expand our business, driven by a mission to enrich people's lives. This mission has been handed down for 130 years to the present day, unshaken by the passage of time.

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1890 Kao Sekken launches Kao Soap, a new Japanese-made soap with the quality to compete with imported products, launching Kao Sekken.

1907 Kao founder Tomiro Nagase, determined to offer an affordable Japanese-made soap with the quality to compete with imported products, launches Kao Sekken.

1969 Goldwell AG joins the Kao Group

1978 Concentrated laundry detergent

1982 New fabric softener

1983 High Point Chemical Corporation joins the Kao Group

1986 Establishment of Kao Corporation Shanghai

1987 U.S.-based Andrew Jergens Company joins the Kao Group

1989 Goldwell AG joins the Kao Group

1990 Concentrated laundry detergent

1991 EVA® introduction

1993 Establishment of Kao Chemical Corporation Shanghai

1994 Start of the Kao Environmental Statement and new CI

1995 Global financial crisis

1996 Establishment of Kao Vietnam

1997 Dot-com bubble bursts

1998 Japanese bubble economy bursts

1999 Withdrawal from the information technology business

2000 Asian currency crisis

2001 The Kao Environmental Statement and new CI announced

2002 John Frieda Professional Hair Care, Inc. joins the Kao Group

2003 Kao Vietnam is established. Kao Vietnam engages in manufacturing and sales of consumer products including hair care and skin care products and chemicals. Kao becomes the first Japanese company to introduce the EVA® management performance metric.

2004 Kao announces the Kao Environmental Statement and declares its commitment to “eco together” activities conducted with consumers and other stakeholders throughout the entire product lifecycle. At the same time, Kao clarifies the new corporate identity, “Kirei, beautifying lives, in harmony with nature.”

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2006 Kao launches the first Japanese company to introduce the EVA® management performance metric. This is intended to further enhance corporate value in the era of global competition.

2007 The strength of both Kao and Kanebo Cosmetics is enhanced by the Kao Environmental Statement and new CI, which offers plant-based skin care, hair care and body care products, joins the Kao Group. This move aims to further expand the U.S. and European hair care business using the eponymous brand of U.K. hair stylist John Frieda.

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History Up to Today

1990 2019

The Kao Way
Corporate philosophy from our founding

Footnotes:
*1 EVA® is a registered trademark of Stern Stewart & Co.
*2 Closing price on December 30, 2019
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Kao Integrated Report 2020

What Kao Aims for

Kao's Monozukuri Strategy

Kao's Corporate Strategy

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Corporate Governance

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Kao’s Yoki-Monozukuri

Our society is in the midst of transformations so large that if companies do not transform themselves, they will get left behind. Many complex issues are also difficult to solve by continuing to do what has been done before, and companies must fundamentally change their current procedures, approaches and concepts.

At Kao, we have made ESG the foundation of management, and are pursuing Yoki-Monozukuri that embeds the ESG perspective in product development. We will fully utilize our assets, create innovations and contribute to the sustainability of the world.

Diverse Consumer Needs

Global warming

Resources scarcity

Plastic waste issues

Severe hygiene conditions

Deforestation

Aging society

Social changes

Major social changes forcing company transformation

Corporate Governance

Corporate philosophy
The Kao Way
Mission
Enrichment of the lives of people

Making Full Use of Assets

Financial assets

Excellent human capital

High ethical standards

Intellectual property and brand equity

Excellence in research and technology

Outstanding manufacturing and logistics

Marketing and sales expertise

Yoki-Monozukuri with ESG Perspective

Consumption

R&D

Sales

Marketing

Logistics

Procurement

Production

ESG-based Products and Services

Cosmetics Business

Skin Care and Hair Care Business

Human Health Care Business

Fabric and Home Care Business

Chemical Business

Making a high level of returns to stakeholders

Consumers

Enrichment of the lives of people

Customers/business partners

Maximization of win-win relationships

Employees

Continuous improvement in compensation and benefits

Providing educational opportunities

Health support

Shareholders

Continuous cash dividend increases

Share repurchases and retirements

Environment

Reducing environmental impact

Society

Advanced measures to address social issues

Kao’s role as a quasi-public institution (Paying taxes, employment, etc.)

Make major contributions to people, society and the planet

Enhance corporate value

Contributions to the sustainability of the world

Increase our global presence

Profitable growth

Increase our global presence

Large positive impacts on people, society and the planet

Kao’s Monozukuri Strategy

Kao’s Corporate Strategy

Performance in FY2019

Corporate Governance

My Kirei Lifestyle

Global warming

Resources scarcity

Plastic waste issues

Severe hygiene conditions

Deforestation

Aging society

Social changes

Major social changes forcing company transformation

Investment to advance sustainability

Expansion of business opportunities originating from social issues
Kao’s ESG Strategy has been developed and we call the vision, commitments and actions Kao’s ESG Strategy. Kao will strive to create a longer-lasting impact to society through the Kirei Lifestyle Plan. To deliver our vision of a Kirei Lifestyle for all, we have set out three ambitious 2030 commitments supported by 19 leadership actions.

**Kao’s ESG Commitments and Actions**

- **BY 2030**
  - Kao will make it easy for people to make small but meaningful choices that, together, will shape a more resilient and compassionate society.
  - Kao’s global leadership actions.
  - Kao’s ESG Vision has been developed and will be used to deliver our vision of a Kirei Lifestyle for all.

**Mid- to Long-term Targets for the 19 Kao Actions**

<table>
<thead>
<tr>
<th>Kao Actions</th>
<th>Indicator</th>
<th>2019 Results</th>
<th>Mid to long-term targets</th>
<th>SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment</td>
<td>The number of people empowered to enjoy more beautiful lives—greater cleanliness, easier aging, better health and confidence in self-expression</td>
<td>Plan to disclose in 2021</td>
<td>3, 5, 6, 10, 12, 14, 17</td>
<td></td>
</tr>
<tr>
<td>Improved quality of life</td>
<td>% of Kao’s improved products which contribute to a more beautiful, healthy and life and touch the heart of people</td>
<td>Plan to disclose in 2021</td>
<td>100%</td>
<td>3, 5, 12, 17</td>
</tr>
<tr>
<td>Habit for cleanliness, beauty &amp; health</td>
<td>Coverage of efforts that aim to improve habits for cleanliness, beauty &amp; health using tvs product categories (Scope: targeted brands/categories)</td>
<td>Plan to disclose in 2021</td>
<td>100%</td>
<td>3, 17</td>
</tr>
<tr>
<td>Universal product design</td>
<td>% of new or improved products that meet Kao Universal Design Guidelines</td>
<td>44%</td>
<td>100%</td>
<td>10, 12, 17</td>
</tr>
<tr>
<td>Safe households</td>
<td>% of targeted regions of concern which views are disclosed</td>
<td>Plan to disclose in 2021</td>
<td>100%</td>
<td>3, 12, 14, 17</td>
</tr>
</tbody>
</table>

**Making thoughtful choices for society**

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

**Making the world healthier & cleaner**

- **Commitment**
  - Kao’s global leadership actions.

**Walking the right path**

- **Effective corporate governance**
  - Kao’s global leadership actions.

**What Kao aims for**

- **Performance in FY2019**
- **Corporate Governance**
- **What Kao Aims for**
  - Kao’s Corporate Strategy
- **Kao’s Monozukuri Strategy**

**Corporate Governance**

- **GOVERNANCE**
  - ESG Vision

**Kao’s Monozukuri Strategy**

- **Kao’s ESG Strategy**

**Kao Actions**

- **Indicator**
  - 2019 Results
  - Mid to long-term targets
  - SDGs
We are working towards the realization of Zero Waste, one of the key themes of our ESG Strategy, so as to create a healthier world.

**Society’s Expectations**

**Responding to the Issue of Plastic Waste**

Over the years, the use of plastic has spread widely throughout society, and has come to underpin our lifestyle. However, in recent years the need to respond to the issue of plastic waste has been recognized as a pressing issue by the international community. Worldwide, up until the present time, huge quantities of plastic products have been manufactured, and most of them has ended up being discarded as waste. The pollution caused by plastic waste has a negative impact for both people and the environment. In order to build a sustainable society, we need to utilize resources more efficiently, and shift over to a society with circularity in which the amount of waste generated is kept to a minimum.

**Initiatives on Containers and Packaging**

**Making Containers More Compact**

We have been working to reduce the amount of plastic material that we use by developing more highly concentrated products that can be sold in smaller containers, and by changing container design to create thinner bottles that are still sufficiently strong.

*Comparison with conventional container types:*

- We have realized a 40% reduction\(^1\) in the amount of plastic material used.

**New Refill and Replacement Product Offerings**

By developing new refill and replacement products, and promoting their widespread adoption, we have been striving to dramatically reduce the amount of material used in container. We also continue to pay painstaking attention to container design, to ensure that anyone can refill containers easily.

\(^1\) Assuming the same number of wash load.

**Kao’s Offerings**

**ESG-driven Product Design That Takes Product Use and Disposal into Account**

In order to realize the shift to a society with circularity, it is vitally important that we reduce the amount of plastic being used, while also making it as easy as possible to separate between different types of plastic container and product, and to use them. To help ensure a healthy future for the planet, we are committed to reducing the amount of plastic used in our product containers and packaging. So far, we have been offering new lifestyle solutions that include being able to reuse the original container with refills, or use refill products in combination with a holder device, etc. We are now implementing initiatives based on a new approach that seeks to do away with the rigid plastic bottle altogether, with the introduction of new film-type container that are fully recyclable.

**By incorporating the ESG perspective from the product development stage onwards, we create products that embody careful thought regarding how the product will be used after it has been sold**

**Looking Ahead to the Future**

**Speeding Up the Reduction in the Amount of Plastic Used through the Adoption of New Film-type Containers**

We have developed Air-in Film Bottles, a new type of container that functions like a bottle, in which air is blown into a plastic film so that it blows up like a rubber swimming ring. In this way, we have made it possible for the container to be produced using only around the same amount of plastic as a refill pack. No refilling is required, and the product can be used to the last drop, without any waste. The introduction of this new container design has begun with its adoption for use with the new MyKirei by KAO brand.

MyKirei by KAO has come into being as a response to the wishes of consumers who want to pursue environmentally-conscious, socially-beneficial lifestyles. The launching of this new brand in the U.S.A. will help to speed up the reduction in the amount of plastic used, and realize a Kirei Lifestyle for consumers. In this way, we are contributing toward the creation of a sustainable society, while also fostering sustainable growth for us over the long term. By cultivating strong brands that consumers will want to support, and which embody our ESG perspective, our global presence will be strengthened.
Role and Activities of the ESG Committee

The ESG Committee discusses and decides on the overall direction of activities related to our ESG Strategy. The committee is chaired by the President and Chief Executive Officer, and its members include Senior Managing Executive and Managing Executive Officers. The committee formulates policies and strategies that are related to ESG activities, identifies ESG issues, risks and opportunities, and examines the current state of ESG activities. The ESG External Advisory Board consists of outside experts, and gives advice and recommendations to the ESG Committee to bring external perspectives to the management of the company.

Main items deliberated on and approved by the ESG Committee in FY2019

- Establishment of ESG Strategies and mid-to long-term goals
- Setting up of the ESG External Advisory Board
- Selection and approval of priority actions
- Internal communication plans
- Creation of new systems to promote ESG

Themes proposed to the ESG Committee by the ESG External Advisory Board in FY2019

- Implementation and promotion of the Kirei Lifecycle Plan within the company
- Methods adopted by Kao to support the realization of ethical consumption by consumers

Kao’s Support for the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

In FY2016, Kao expressed its support for the recommendations of the TCFD. In FY2019, Kao implemented quantitative assessment of the potential impact of climate change on its business, using several different climate change scenarios. The results obtained in this assessment showed that there was a significant potential impact in relation to crude oil price data and carbon pricing, etc. Kao has already begun taking action to minimize resource usage and realize decarbonization through Reduce Innovation and Recycle Innovation, in line with the Kirei Lifestyle Plan, the Kao’s ESG Strategy. Kao has utilized TCFD scenario analysis to evaluate the company’s resilience to climate change, and the evaluation results will be reflected in Kao’s future business strategy.

ESG-driven Management

By taking on the challenge of creating and innovating through ESG-driven Yoki-Monozukuri manufacturing, we aim to develop businesses that can contribute towards the realization of enriching, sustainable lifestyles, while also enhancing corporate value.

David J. Muenz
Executive Officer
Senior Vice President, ESG, Global

Climate Change Scenario Analysis

For more details about the climate change scenario analysis implemented in FY2019, see the "Decarbonization" section in Kao’s Kirei Lifestyle Plan Progress Report 2020.
**Yoki-Monozukuri with ESG Perspective**

The strong ESG-driven value creation foundations that we possess provide support for every Kao business, and our effective integration of a perspective based on our ESG Strategy is contributing toward the building of a sustainable society.

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**R&D**
- Innovation capability through Essential Research.
- High-value-added product development capability.
- Unique technologies that realize outstanding performance.

**Marketing**
- Thorough, consumer-driven marketing.
- A product development capability focused on delivering products that are genuinely useful for both consumers and society as a whole.
- Brands that cultivate close links with consumers, and which enjoy a high degree of loyalty.
- A comprehensive product line-up oriented toward enriching people's lifestyles.
- Cultivating purpose-driven brands.
- Environmentally-conscious brands and products creation that sees to reduce plastic usage and cut CO2 emissions.

**Procurement**
- Procurement that addresses environmental and social issues.
- Procurement risk management capabilities and stable product supply.
- Network of strong relationships with suppliers.
- Sustainable procurement taking care of environment.
- Implementing procurement that respects human rights and addresses labor issues.
- Dialogue with and support for small-scale agricultural producers.

**Production**
- Factory capabilities that embody safe, stable manufacturing.
- High-quality, low-cost, environmentally-conscious production technology.
- Product supply driven by demand forecasting.
- Promotion of Responsible Care activities and effective chemical substance management.
- Utilization of renewable energy.
- A enhanced production system that realizes energy-saving and reduces greenhouse gas emissions.

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**Logistics**
- A seamless transportation and delivery network linking manufacturing to the customer.
- Cooperation between production and sales to realize highly efficient logistics.
- A reduced environmental impact due to promotion of modal shift implementation, joint transportation, etc.
- Sustainable Logistics Movement (a program launched by the Japanese government to make logistics more efficient) that fosters improvement of delivery drivers’ working environment.
- Controlling the amount of waste generated through the control of appropriate inventory levels.

**Sales**
- Ability to offer attractive solutions to retailers and other firms.
- Sales infrastructure that extends into around 100 countries and regions.
- A strong customer base.
- Reducing the amount of waste associated with returned goods, promotional items and special project items.
- A range of measures for working together with retailers to enhance logistical efficiency.

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**Consumption**
- Reducing waste and promoting recycling.
- Reducing water usage.
- Reducing CO2 emissions.

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The strong ESG-driven value creation foundations that we possess provide support for every Kao business, and our effective integration of a perspective based on our ESG Strategy is contributing toward the building of a sustainable society.
Research and Development

By thoroughly pursuing Essential Research, we will generate innovations to solve social issues and make great contributions to society as a whole.

Yoshihiro Hasebe
Representative Director, Senior Managing Executive Officer
Senior Vice President, Research and Development, Global
Senior Vice President, Strategic Innovative Technology, Global
Responsible for Compliance

Pursuit of Innovations for Solutions to Social Issues

I believe the social issues that Kao should tackle are the excessive use of substances and energy associated with products over and above consumption, the rise in medical expenses in Japan and the decrease in healthy life-span by Japanese senior people. From the 20th century, manufacturing has been based on a free market economy, with repeated product battles caused by excessive products in the market, and many products being short-lived or being discarded without use. This has not been a sustainable economy for meeting the true needs of the market, where only the products that should be used are available in the minimum amount necessary and with the longest life possible. In terms of medical treatments as well, if we were able to maintain lifestyles that did not overly rely on therapies and medicines and maintain health with the minimum necessary medicines, the time and cost needed for medical treatments would be reduced. Our goals for these major issues are to have consumers choose products with long life over the long term without competing. As one effort toward this, our RNA monitoring technology for skin, which aims to monitor people’s health at the genetic level while offering products and medical treatments optimized on an individual basis, is a leading proposal. If we can connect this technology with many other technologies and have it widely put into practical use, products that are not necessary or ineffective will be weeded out, with only the most effective products for consumers remaining. For the issues of ocean plastic waste and global warming as well, we do not aim to have our technologies be limited only to us, but plan to work together with many companies and universities with the goal of minimizing CO2 emissions and maximizing useful materials.

Essential Research

While the demands placed on companies to achieve a sustainable future world are tremendous, special needs to satisfy people’s individual desires will continue to grow larger. In other words, we must achieve manufacturing that satisfies both sustainability and diversity at the same time. For this trend, I believe that this is very much the time for us to train a laser focus on what is essential. It is vital that we think about what forms the underlying basis, what should be prioritized and what should be changed, and integrate this into Yoki-Monozukuri. In this sense, our fundamental technology research that pursues Essential Research now has the opportunity to achieve meaningful contributions.

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

To realize these policies, we have reinforced matrix management for R&D activities, which brings together 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, we have 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

Mid-term Growth Strategy

The direction Kao should take is transforming into a leading company aiming to contribute to achieving the SDGs. We want to step into expanding intersections of our existing business from our business where we can currently use our core technologies. For example, these include the hygiene domain where our bioscience can make contributions primarily in controlling the spread of infectious diseases, the therapies domain where we can further enhance our skin care technologies to contribute to therapies adding beauty, and the recycling domain for sustainable conservation of food and the environment. I am confident that these new domains are areas where we can use our R&D assets effectively to help as many people as possible. Then we will aim to create technologies able to make possible things that have proven too difficult in the past and achieve world-first and world-leading social innovations with social impact.

Future Skin, created with Fine Fiber Technology, to develop the future of beauty and medical treatment

Fine Fiber Technology enables a light, soft, natural-feeling multi-layered and ultra-thin membrane made of superfine fibers with submicron diameters to be sprayed directly on the surface of the skin. We position this Fine Fiber Technology as one social innovation for solving social issues, and will deepen research on this technology looking at developments in the medical treatment domain in addition to the cosmetics domain encompassing skin care and makeup. We will continue to use innovations based on our Essential Research to solve social issues and contribute to people leading more beautiful and enriched lives.
**Procurement**

Acting as a strategic coordinator with a focus on ESG-driven and stable procurement, we are aiming to achieve sustainable competitive advantage by building an even stronger network with our global business partners.

**Masakazu Negoro**  
Managing Executive Officer  
Senior Vice President, Procurement, Global

**Efforts of the Procurement Division**

Kao’s business operations are heavily dependent on natural resources, and resource scarcity can have a significant impact on the continuity of our business. This means that ESG-driven procurement, which embodies concern for both the environment—including natural resources saving—and society, is very important. Regarding our initiatives to address social issues, we are using dialogue to identify issues of particular concern in relation to the working environment and living circumstances of small-scale oil palm farmers and the people who work on oil palm plantations, and we are putting in place a framework to realize appropriate corrective measures and providing working together with NGOs to provide necessary support. As part of these efforts, we provide technical assistance, together with our partners, to help local people enhance their productivity. By promoting Yoki-Monozukuri with ESG perspective, stable procurement aimed at the stable provision of products to consumers and customers is also vitally important. We are promoting responsible procurement that is based on these two key aspects: ESG-driven and stable procurement.

In addition, by acting as a strategic coordinator for our individual businesses and their suppliers, and building up a Procurement Division is implementing strategic procurement that ensures a level of performance that will satisfy consumers and customers at a reasonable cost. Through these initiatives, we are aiming to build sustainable competitive advantage.

**1. Sustainable Procurement of palm oil and pulp**

<table>
<thead>
<tr>
<th>Main initiatives</th>
<th>Main Results in FY2019</th>
<th>Impact on business operation</th>
</tr>
</thead>
</table>
| Confirmation of traceability | ● Palm oil  
For palm oil used in the Consumer Products Business, we have confirmed traceability as far as the palm oil mill.  
We are participating in the organization SUSTAIN, along with our Indonesian partners and NGOs.  
We are also implementing traceability to small-scale palm farmers. Using blockchain technology, etc.  
By promoting the registration of both supplier and worker data, we are working to realize effective utilization of traceability. | Identifying business risk |
| Utilization of certified raw materials | ● Palm oil  
As of FY2019, 96% of the palm oil used in the Consumer Products Business was RSPO certified, and we are aiming to increase this share to 100% in FY2020.  
Pulp  
As of FY2019, 91% of the paper and pulp used in the Consumer Products Business was FSC- or PEFC certified, and we are aiming to increase this share to 100% by FY2025. | Establishment of a sustainable procurement framework |

2. Supplier monitoring from an environmental and social perspective

<table>
<thead>
<tr>
<th>Main initiatives</th>
<th>Main Results Achieved by FY2019</th>
<th>Impact on business operation</th>
</tr>
</thead>
</table>
| Effective utilization of Sedex for monitoring ESG initiatives | ● To verify compliance with supplier guidelines, we ask suppliers to join the Supplier Ethical Data Exchange (Sedex), and to respond to questions and provide us with access to data.  
To date, access rights have been established for 1,900 sites. We aim to continue expanding the scope of access rights in the future.  
- We implement risk evaluation through Sedex assessment. We provide suppliers with feedback on assessment results, and ask them to make improvements where needed. | Identifying business risk |
| Participation in the CDP supply chain program to help realize sustainable raw materials procurement | ● We participate in the Carbon Disclosure Project (CDP) supply chain program.  
We are the only Japanese company that requires suppliers to implement disclosure in the three key areas of Climate Change, Water, and Forests.  
- Through participation in the CDP supply chain program, we encourage suppliers to realize sustainable raw materials procurement.  
- Kao was the first Japanese company to be selected for inclusion in the CDP Supplier Engagement Leader Board. | Identifying business risk |

3. Promoting centralized purchasing of indirect materials and “green” procurement

We are integrating our internal processes for indirect materials purchasing. By implementing purchasing using a single, unified system, we are able to realize the visualization of purchasing content, and ensure effective governance.

**RSPO (Roundtable on Sustainable Palm Oil)**

The RSPO is a non-profit organization that seeks to promote the production and use of sustainable palm oil through the formulation of certification standards and through stakeholder participation. Kao joined the RSPO in 2007.

**SUSTAIN (Sustainability Assurance & Innovation Alliance)**

SUSTAIN is an initiative that aims to realize supply chain data transparency through collaboration between palm oil stakeholders that makes effective use of blockchain technology. Kao joined SUSTAIN in 2018.

**Sedex (Supplier Ethical Data Exchange)**

Sedex is a collaborative platform with the objective of promoting ethical, responsible business practices in the supply chain. Kao joined Sedex in 2014.

**CDP Supply Chain**

CDP Supply Chain is a program implemented in the supply chain that uses questionnaire surveys to analyze and evaluate data on CO2 emissions and climate change-related issues. Kao began sending suppliers a total of 24 CDP Supply Chain questionnaires in 2009.

**FSC (Forest Stewardship Council)**

The FSC promotes the use of pulp products that are certified by international bodies engaged in providing certification for the management of the world’s timber-producing forests, and for the distribution and processing of the timber extracted from these forests.

![The small-scale oil palm farmers in Indonesia](image-url)
Supply Chain Management

Through the effective utilization of cutting-edge technology and collaborative innovation with individual suppliers, we are building an advanced, socially beneficial and environmentally conscious supply chain that supports the stable supply of our products.

Osamu Tabata
Managing Executive Officer
Senior Vice President, Supply Chain Management, Global Responsible for TCR*1 Promotion

Supply Chain Management Initiatives

The environment of supply chain in which Kao operates is undergoing a dramatic transformation. With the diversification of lifestyles and values, the growth of the e-commerce market, etc., products have become more diversified, and there have been changes in the types of products that sell particularly well. In responding to this changing environment, our supply chain management strategy is focused on producing reliable products as efficiently as possible, and on ensuring the stable delivery of the products that consumers need.

We have built a supply system that is based on an integrated framework incorporating every stage from procurement through to production and sales, with close collaboration between related divisions and centralized management of information, so that demand can be forecast at the level of individual products, after which we undertake procurement based on the level of demand, implement production and then deliver products to our customers in a stable, reliable manner. So as to build an even more advanced supply chain, we are aiming to reduce our environmental impact and improve transportation efficiency, and to this end we are working to enhance our framework for collaboration with other stakeholders.

By making effective use of environmentally conscious production technology, undertaking production with consistently high quality, and building an efficient logistics network, we are able to ensure the stable supply of products.

Building an Advanced Supply Chain

In the future, we will be working to make our supply chain even better. Currently, our product supply plan—which is based on our overall business plan and on demand planning—incorporates advanced technology such as artificial intelligence (AI) into an integrated, common platform, and we are implementing initiatives to enhance the precision of demand forecasting, automate production planning and optimize inventory management, as we seek to drive supply chain improvement on a global scale.

More specifically, we aim to improve the precision of demand forecasting through the effective utilization of AI and other digital technologies, by undertaking detailed analysis of consumer needs and market trends. In addition, by automating production planning for production lines that are engaged in the manufacturing of multiple different products—a highly complex task that requires extensive experience—we are working to make planning more precise and enhance operational efficiency. In this way, we can optimize materials order placement volume and inventory levels, thereby making it less likely that we will miss out on sales opportunities due to having insufficient inventory, or generate large amounts of waste product due to excessively high inventory levels. Through the automation of production planning, we are aiming not only to realize the optimization of operations that in the past depended on the experience and nous of individual personnel, but also to achieve a dramatic improvement in productivity.

ESG-driven Supply Chain Management

Demonstrating Concern for the Environment

Besides working to optimize production and logistics, we are also linking production planning and logistics planning together and promoting collaborative innovation with suppliers, aiming to eliminate overburden, waste and inconsistency throughout the supply chain and reduce our environmental impact.

Furthermore, in addition to our existing energy-saving activities, we are also taking steps to further reduce CO₂ emissions by proactively adopting natural energy sources such as photovoltaic power and wind power, and making effective use of biomass energy, etc. By making an active effort to use electric power that has been generated using renewable energy, we are driving a further reduction in CO₂ emissions in supply chain activities. In addition, regarding the reduction of the use of refrigerants with a high ozone depletion potential (ODP) in line with the Montreal Protocol on Substances that Deplete the Ozone Layer, we have also decided to try to reduce the global warming potential (GWP) of the refrigerants that we use, in accordance with the Kigali Amendment to the Montreal Protocol. We are working to reduce the use of alternative CFCs (hydrofluorocarbons) that, having an ODP of zero, have a high GWP by proactively switching over to natural refrigerants and “green” refrigerants (hydrofluoroolefins, etc.). At the same time, in regard to our efforts to achieve zero waste—particularly with respect to plastic waste—we are going beyond conventional supply chain activities and are striving to reduce waste throughout over the entire product lifecycle through collaboration with R&D and with external actors, including government, industry and academia.

Proactive Adoption of Solar Panels

Kao is promoting the adoption of renewable energy facilities such as solar panels at all production sites, both within and outside Japan.

Demonstrating Concern for Working People

The building of an efficient, appropriately-managed supply chain helps to reduce our environmental impact by making transportation more efficient, while also having positive benefits for working people.

In the future, our integrated seamless transport and delivery network—which links every stage from manufacturing to the customer, and is one of the key strengths of our supply chain—will link logistics information with external parties, with the further evolution of measures to realize joint transport with other manufacturers, etc., thereby driving the enhancement of overall transport efficiency. This in turn will lead to an improvement in working conditions for people working in the logistics industry, which has been affected by severe labor shortages, and where long working hours have become the norm.

We are also working actively to promote the Sustainable Logistics Movement by enhancing supply chain efficiency through the active utilization of pallets with RFID tags attached in smoother product transportation, which facilitates the automation of storage and retrieval operations at logistics centers, and makes for improved product information traceability. Furthermore, in regard to chemical substance management, through inter-divisional activities to promote the Strategic Approach to International Chemicals Management (SAICM) we are implementing appropriate management throughout the entire chemical substance lifecycle, from development and manufacturing through to usage and disposal, with the aim of contributing to the realization of a sustainable society. In Supply Chain Management Department, with regard to production sites that handle chemical substances at every stage from raw materials through to finished products, in order to safeguard both operators’ health and the environment from negative impacts, besides implementing conventional risk assessments and response measures, we also undertake risk assessments and formulate response measures for new substances that have just been adopted.
### Overview of Kao’s Business in FY2019

<table>
<thead>
<tr>
<th>Business Area</th>
<th>Net Sales (billion yen)</th>
<th>Operating Income (billion yen)</th>
<th>Operating Margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chemical Business</strong></td>
<td>285.9 (−6.6% like-for-like)</td>
<td>30.8 (−1.0% points year-on-year)</td>
<td>10.8%</td>
</tr>
<tr>
<td><strong>Fabric and Home Care Business</strong></td>
<td>359.5 (＋4.9% like-for-like)</td>
<td>71.8 (＋0.7 billion yen year-on-year)</td>
<td>20.0%</td>
</tr>
<tr>
<td><strong>Human Health Care Business</strong></td>
<td>255.2 (＋3.5% like-for-like)</td>
<td>17.2 (＋0.7 billion yen year-on-year)</td>
<td>6.7%</td>
</tr>
<tr>
<td><strong>Skin Care and Hair Care Business</strong></td>
<td>340.8 (＋1.1% like-for-like)</td>
<td>49.5 (＋2.5 billion yen year-on-year)</td>
<td>14.5%</td>
</tr>
<tr>
<td><strong>Cosmetics Business</strong></td>
<td>301.5 (－20.1% of consolidated net sales*)</td>
<td>41.4 (－19.6% of operating income*)</td>
<td>13.7%</td>
</tr>
<tr>
<td><strong>Care Business</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Hair Care Business</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Human Health Care Business</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Chemical Business</strong></td>
<td></td>
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</tr>
</tbody>
</table>

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*1 Like-for-like growth rates exclude the effect of currency translation.
*2 Share of net sales is calculated based on sales to customers. Share of operating income is calculated before the elimination of intersegment transactions.
*3 Net sales and operating income of the Chemical Business include intersegment transactions.

**Chemical Business**

- We provide a wide range of chemical products, including oleo chemicals made from natural fats and oils, performance chemicals such as surfactants, and specialty chemicals including toner and toner binders.

**Fabric and Home Care Business**

- We provide fabric and home care products so that as many people as possible can create moments of cleanliness in their daily lives.

**Human Health Care Business**

- We deliver hygiene products which are gentle on the skin, along with functional beverages promoting new health values and products that support healthier and more comfortable daily lifestyles, including toothpaste and bath additives.

**Skin Care and Hair Care Business**

- We deliver mass-market skin care products and hair care products to people all over the world so that they are able to express their desired personalities, and in doing so we contribute to the realization of truly healthy, beautiful skin and hair.

**Cosmetics Business**

- In order to respond to the diverse beauty values of each individual consumer, we are refining the characteristics of our brands and delivering skin care and make-up products to consumers.

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#### Chemical Business

- **Oleo chemicals**
- **Performance chemicals**
- **Specialty chemicals**

#### Human Health Care Business

- **Skin care**
- **Make-up**
- **Odor removal**

#### Fabric and Home Care Business

- **Laundry detergent**
- **Fabric softeners**
- **Bleaches**
- **Disinfecting agents**

#### Care Business

- **Hair styling agents**
- **Coloring agents**
- **Products for hair salons**
- **Baby diapers**
- **Adult incontinence products**

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* Kao Integrated Report 2020

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*3  Net sales and operating income of the Chemical Business include intersegment transactions.
Consumer Products Business

With a sincere approach to out consumers, the creation of products that are truly needed by society enables Kao to create value and achieve profitable growth.

Tomoharu Matsuda
Director, Managing Executive Officer, President, Consumer Products, Global

The Social Situation Surrounding the Kao’s Business

Conditions in the global economy are unclear due in part to international trade disputes and the novel coronavirus (COVID-19) pandemic as well as uncertainty surrounding the direction of economic growth in various countries. The market in Japan has been affected primarily in the cosmetics market from falling demand for products bought for the purpose of reselling due to changes in the China’s e-commerce law that took effect in January 2019. In addition, the adverse weather conditions in the first half of the year also affected the seasonal products market including the market for UV care products, etc. Economic recovery after the consumption tax rate increase enacted in October has also been slow. The markets for household and personal care products and cosmetics in Japan which are key markets for the Kao Group, saw a great deal of volatility from last-minute demand before the consumption tax rate increase and its growth weakened as the decline in sales after the last-minute demand, but for the full year the markets posted solid performance on a value basis.

A series of environmentally-conscious products were launched in FY2019. Digitalization has also advanced, and the markets for household and personal care products and cosmetics in Japan are seeing not only e-commerce but a variety of new business models including subscription models, and gaining an understanding of consumption conditions has become quite complex. Desire for sustainability has risen further, and companies today are expected to respond to needs and calls for product safety and reliability.

FY2019 Results and Issues

Sales increased 2.0% (increased 2.9% on a like-for-like basis) compared with FY2018 to 1,257.0 billion yen.

In the Cosmetics Business, the new strategy we undertook in 2018 generated strong performance, and we achieved the K20 plan of net sales of 300 billion yen and an operating margin of 10% one year ahead of the plan. We will step up efforts in the growing e-commerce and travel retail sales channels, and further enhance our business in Asia.

In the Skin Care and Hair Care Business, sales of the new body cleanser Bioré u The Body achieved steady growth. While we posted solid performance in Asia, in the Americas we were impacted by intense competition and sales decreased. We will work to activate the market by shifting more toward offering high-value-added products and making distinctive and attractive offerings unique to the Kao Group.

In hair care products, hair color products in Japan and the Onibe, a brand in the Americas for hair salons, achieved strong performance. Overall, however, hair care products were affected by the shrinking mass market. We will strive to offer brand value and activate the market with distinctive product offerings while establishing both mass brands and premium brands.

The Human Health Care Business was impacted by a substantial decline in Japan in demand for Merries baby diapers for the purpose of resale in the Chinese market, but nevertheless grew its market share in Japan. Laurier sanitary napkins posted sales growth in Japan and Asia with strong sales of high-value-added products. We will increase the value of our products and build up our brand equity.

In the Fabric and Home Care Business, Attack ZERO laundry detergent was launched in Japan, and sales grew compared with FY2018. Home care products saw sales growth in dish-washing detergents and household cleaning products. We are also taking steps to develop high-value-added products and reduce the amount of plastic use by shifting to refill products and larger-capacity container.

We are also seeing challenges in new product categories as well. In the hygiene business domain, we launched the brand sonae brand in the hygiene business domain and RAV, a temporary pinpoint coloring product popular with young people to bring more excitement to special days.

Net sales in Asia increased 3.8% or 6.7% on a like-for-like basis, to 206.3 billion yen in FY2019. Our business in Asia is aiming to maximize brand equity in concert with Japan. To do this, Japan and Asia are working together to implement brand enhancing initiatives. The business in Asia, primarily Kao China and Kao Indonesia, contribute significantly to the Kao Group’s growth.

FY2019 sales by region in the Consumer Products Business

<table>
<thead>
<tr>
<th>Region</th>
<th>Sales (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>896.6</td>
</tr>
<tr>
<td>Asia</td>
<td>206.3</td>
</tr>
<tr>
<td>Americas</td>
<td>88.6</td>
</tr>
<tr>
<td>Europe</td>
<td>62.2</td>
</tr>
<tr>
<td>Total</td>
<td>1,257.0 +24.1</td>
</tr>
</tbody>
</table>

* Figure present sales to external customers, and sales by geographic region are classified based on the location of the sales recognized.
### Purpose-driven Brand Management

At Kao, our brand purpose is to have positive effects on consumers’ lives and on the society and the environment, and to realize sustainable lifestyles.

That Kao’s brands help make the world and society that consumers live in a better place needs to be well understood by society and consumers and Kao’s brands need to be chosen.

To achieve this in a world where drastic change is predicted, we need to respond to consumers’ needs and concerns in relation to their changing values and social issues, and co-create value together with consumers.

Key here is positioning the question of what value the products Kao create can offer consumers as the starting point of product value creation, and taking the approach in day-to-day marketing of integrating this into product development and communications.

At Kao, we conduct Life Value Solution marketing aimed at providing benefit for consumers’ Life Value through our business activities.

To realize the sustainable society that we are aiming to create together with consumers, we must take actions through our brands, which are the greatest point of contact we have with consumers.

As a first step, we will clarify the social issues that each brand will focus on addressing as well as update the brand design guide that forms the foundation for the respective brand’s value design, define the brand purpose as a higher-level concept to the brand vision and mission, and make clear brands’ purpose for existing, meaning how they will contribute to society and the world.

Based on the brand purpose, we design brands from the product development stage with universal design perspectives as well as ESG perspectives focused on society and the world. It is important that consumers perceive new value from outstanding product performance leveraging the technology innovations that we have built up as our strength. This value experience can deepen the bonds between consumers and Kao. Through this robust engagement, we believe information will be communicated by consumers. In this way, we will create feelings of empathy with consumers and build up our brand value.

In the future, we will expand our purpose-driven brands that offer ways for consumers to realize better lifestyles and begin solving social issues. This kind of business activity leads to the company achieving business activity leads to the company achieving sustainable and profitable growth, and realizes a cycle where this is then invested in addressing new social issues.

Having our products be close to consumers’ daily lives, and creating this daily reality, is what truly brings us joy.

### Offering Solutions to Social Issues

Through beauty, the Cosmetics Business engages in social value creation with the ability to offer moments of joy in daily life. By managing our business with an ESG perspective, Kao is contributing to realizing a society in which fulfilling lives are possible for all, throughout the world. In promoting the use of environmentally conscious, renewable resources in our ingredients, containers and packaging, the use of renewable energy in production and distribution processes and waste reduction in the use stage by the consumer, Kao makes contributions to the sustainability of the world across the value chain.

### Toward 2020 and beyond

While offering products that combine our proven quality, made possible by our industry-leading expertise in the area of skin science and beauty-enhancing qualities, with emotional and sensory appeal, we aim to build on the distinctive identities of each of our brands and create a global presence for our businesses. We will engage in creation of strong brands by continuing to offer consumers exciting brand experiences. At the same time, Kao will seek out various growth opportunities from the increasing cross-border exchanges of people and information as well as new digital technology to conduct forward-looking and innovative business operations.
Skin Care and Hair Care Business

Toward 2020 and beyond
Kao will develop unique products with high-added-value to drive our global expansion as a highly profitable business. With a sharp focus on consumers’ attitudes to beauty and changes in lifestyle habits, Kao will accelerate the shift toward delivering high-added-value products and play a leading role in invigorating the market by creating distinctive and attractive product offerings that are unique to Kao. To contribute toward the realization of healthy, beautiful skin and hair for people throughout the world, Kao will enhance its business operations by launching and developing distinctive, appealing new products, and by engaging in marketing activities that stay ahead of consumers’ changing purchasing behavior.

Offering Solutions to Social Issues
The impact on the global environment of the excessive use of plastic is a source of concern. We have developed new thin-film refill containers as well as the Smart Holder, which allows consumers to insert a pump directly into refill products and use them, providing a solution that is both environmentally conscious and easy to use. With the introduction of new air-in film bottles, we reduce the amount of plastic needed, and speed up of initiatives to reduce plastic usage. Through those efforts, we are working to reduce CO2 emissions on a product lifecycle assessment basis, from production to disposal, thereby contributing proactively toward the sustainability of the world.

Skin care
We will strive to expand our business domain with bold moves via development of new technology to address environmental stressors that affect skin, centered on UV care and deodorant, and to meet needs in the hygiene domain in addition to reinforcing our unique positioning and further enhancing our high-value-added offerings in the cleansing products, which constitutes the core element in the skin care.

Hair care
While working to bring greater clarity to our product portfolio with its many different brands, we are working to create new value by precisely targeting current trends and actively pursuing development of high-value-added products that provide real value in consumers’ daily lives. In our business for hair salons, we have developed a thorough understanding of hair stylist needs, and we are meeting these needs through the development and provision of innovative new products and services.

Business area expansion
The global skin care brands BiCöré and Jergens will evolve to facilitate their global growth as we develop their product lines to drive expansion into the countries and regions in which they have not previously been offered. In our business for hair salons, while driving growth in the high-end segment through Orbie, we will be working steadily to create synergies with Goldwell in the North American market, while also accelerating global expansion.

Human Health Care Business

Toward 2020 and beyond
Kao will offer high-value-added products and solutions that support the physical and mental health of people all ages with the goal of enhance people’s vitality and contributing to the creation of healthy lifestyles around the world. Kao will promote product development that focuses on both physical and mental health in our hygiene health products. In our hygiene products, Kao strives to create products that are gentle on the skin and provide high levels of comfort and peace of mind. In functional beverages, Kao offers differentiated products with enhanced functional health value.

Offering Solutions to Social Issues
Kao will support people around the world to help them enjoy improved health through activities focused on mothers and infants in maternity wards, first menstrual education in elementary schools, and enlightenment on adult incontinence products and oral care in hospitals and care facilities. We will also help to enrich people’s lives by helping them to keep in better physical condition, leading to reduced fatigue and lower stress.

Strategy
We strive to enhance people’s vitality by offering advanced, high-value-added products on an ongoing basis. With the aim of being the most gentle on the skin diaper in the world, Merries contributes to the healthy physical and emotional development of babies. We aim to help solve health and wellness challenges at each life stage with products such as MegRhythm, which uses Kao’s original thermo technology, Healthya contributing to wellness for people with visceral fat and high blood pressure issues and advanced oral care products contributing to a lifetime of teeth and gum health.

Strategy
Kao is accelerating our global expansion with evidence-based, high-value-added products offering unique health care propositions. First, led by Merries, Laurier and MegRhythm brands, Kao intends to offer products with greater customization to fit local health care needs while collaborating with and creating a network of universities, medical professionals and other experts in each country. Based on consumption patterns and distribution conditions in each country, we will work to efficiently expand product lines new and the countries and regions through strategic use of distributors and growing e-commerce channels.
Toward 2020 and beyond
People’s attitudes to and their habits in relation to housework, such as laundry and cleaning, are undergoing a major transformation due to the greater diversity of living environments and lifestyles as well as other social factors. Different countries and regions each have their own emerging needs as standards of living improve. While staying attuned to what different consumers want in life, we will use the insights we gain from them to take the lead in activities to solve various social issues. By offering products and solutions with high-added-value that enable anyone around the world to live each day in greater cleanliness and comfort, we contribute to realizing greater contentment in daily life.

Offering Solutions to Social Issues
Kao believes it is our role to accurately understand consumers’ changing attitudes and habits in the area of laundry, cleaning and other housework, and to take the lead in helping to solve various social issues. In the Fabric and Home Care Business, we have taken actions to reduce our environmental impact at every stage of the product lifecycle, for example by making products more concentrated so that their containers can be more compact, thereby reducing the amount of plastic used, and by increasing the use of refill and replacement products. In the future, we will be proactively contributing toward the sustainability of society through initiatives aimed at reducing the amount of plastic used, for example by eliminating eye-catching plastic stickers used on products, and switching over to larger-volume containers, etc.

Our strategy is to develop high-value-added products utilizing the results of our Essential Research, and offer solutions that are easy to understand, easy to use, and otherwise accessible to a wide range of people. Kao will create even more Kirei that consumers and contribute to increased market revitalization. Standards of living vary in different countries and regions, and laundry environments (clothing, water quality, washing methods) and living environments also differ throughout Asia. Kao will apply the value-added sanitation technology we have built up in Japan in ways that fit each country and region to realize thorough localization and contribute to making consumers’ lives better. The Attack brand in the fabric care and the Magiclean brand in the home care have won widespread popularity among consumers in Asia, and Kao will develop them into well-loved brands. We will also speed up our business development not only in countries where we already have business operations, but also in neighboring emerging markets in Asia and elsewhere.

Strategy
We aim to provide an extensive range of high-quality products through our expertise in R&D and through product development that is oriented toward the actual needs of professional workplaces such as restaurants and other food service providers, hotels and other types of accommodation, medical institutions and care facilities, etc. We also contribute toward the enhancement of our customers’ corporate value, by offering hygiene management solutions.

Viewing the major changes taking place in the professional-use products business environment—including the trend for the food services market to be dominated by a handful of major chains, growing demand for take-out food, the continuing increase in inbound tourist visitors to Japan, and the acceleration of the aging of the population—as opportunities for business growth, we grow our business still further by increasing the market share held by existing businesses and also taking up the challenge of expanding into new business areas.

In addition, in 2018 we acquired U.S.-based company WSI, which received the 2019 Green Chemistry Challenge Award (awarded jointly by the U.S. Environmental Protection Agency and the American Chemical Society), has been contributing toward reducing the environmental impact of the U.S. professional-use cleaning industry by providing cleaning agency delivery systems that incorporate environmentally conscious cleaning agents. In the future, WSI will be making effective use of synergy with Kao’s R&D expertise to achieve further growth as a global business.

* Professional-use products are included within the Fabric and Home Care Business.
Consumer Products Sales

Viewing changing circumstances surrounding our business as growth opportunities, build a new sales structure and sales channels aiming to achieve further growth.

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

Changes in Conditions Affecting Business

The Consumer Products Sales Department has striven to create a better society and increase consumer satisfaction by providing new value to society and consumers and creating new markets together with retailers. Over the last several years in particular, advances in digital technology and changing consumer values have significantly changed how consumers live their lives and how they choose and buy products. Responding to these changes in society, retailers are also making big changes, from monopolizing market segments to focusing on the e-commerce business and developing new types of physical stores.

Meeting Needs in Increasingly Borderless Markets

Developments in smartphones and other digital technologies and the globalization of the retail industry have rapidly advanced the borderlessness of products and distribution in markets. Barriers between online and offline channels are gradually being eliminated not only in China and United States, which have been at the forefront of this trend, but also Japan, other parts of Asia and Europe, and where consumers get their information from and their consumption behavior are undergoing substantial changes around the world. In order to communicate our value to consumers as borderlessness advances on all sorts of fronts in this way, we need to fully engage in one-to-one marketing, where we take the massive amount of data collected through digital means and customize it for individual consumers. We will advance our efforts taken in collaboration with the retailers in Japan, with e-commerce companies developing cross-border business, and with global retailers, and innovate our activities to communicate the quality of Kao products and services to consumers in a wide range of countries and regions toward our goal of becoming a company with a global presence.

Promoting Sales Activities Integrating ESG-driven Management

Going forward, we will fully implement sales activities integrating ESG in partnership with retailers. To expand sales and profit at both retailers and us, we must continue to offer new value to people and contribute to the enrichment of people’s lives. Meanwhile, for consumers to lead enriched lives in the true sense of the world, we must consider the global environment and society, and contribute to creating a sustainable world. Based on this thinking, the Sales Department is also integrating ESG to have a greater positive impact on people, society and the local communities than before.

Specific sales activities integrating ESG that we are conducting include zero waste initiatives and increasing logistics efficiency.

1. Zero waste initiatives
We have taken actions to reduce waste in the past as well, including reducing the volume of promotional materials. We still have many types of waste, such as discontinued products and used promotional materials, however, that have impacts on the global environment. We will take the activities that we have been implementing a step further, and for issues that are difficult for one company to resolve on its own, we will conduct ESG-driven initiatives to reduce our environmental impact together with various stakeholders.

Specific actions of our zero waste initiatives

1. Minimizing/eliminating product returns
2. Fundamentally reviewing promotional materials
3. Reviewing in-store promotional products plans
Chemical Business

We offer innovative products and solutions as a global leading company, basing business decisions on the criteria of the benefit to the environment and society.

Masahiro Katayose
Executive Officer
President, Chemical Business, Global

Social Issues Affecting Business
Social issues affecting the business are growing more diverse, while their degree of impact is also increasing. Specifically, issues that can be cited include climate change and global-scale environmental changes such as water and food scarcity, stricter environmental regulations that have been enacted in many countries backed by people’s heightened awareness of these changes, and economic changes including trade frictions and the worldwide economic slowdown. In addition, we are being called on to exercise more consideration than before regarding the raw materials we use in light of biodiversity impacts and human rights issues.

Business Opportunities and Risks
Viewing these changes rather as opportunities, through technology innovations in chemicals we will contribute to resolving social issues, meet changing customer needs and support technological advances.

In our oleo chemicals, whose main raw materials are natural fats and oils, the market entry by raw materials manufacturers is increasing the commoditization of products, and we will strengthen development of distinctive and sustainable fat and oil derivatives. In the information materials and performance chemicals, we are currently developing innovative products with greater levels of customization, aiming to further reduce environmental impact.

Net Sales\(^2\) and Operating Income

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Net Sales (Billions of yen)</th>
<th>Operating Income (Billions of yen)</th>
<th>Operating Margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>298.5</td>
<td>31.4</td>
<td>10.6%</td>
</tr>
<tr>
<td>2016</td>
<td>288.5</td>
<td>28.6</td>
<td>9.9%</td>
</tr>
<tr>
<td>2017</td>
<td>273.8</td>
<td>29.7</td>
<td>10.8%</td>
</tr>
<tr>
<td>2018</td>
<td>310.3</td>
<td>30.3</td>
<td>9.8%</td>
</tr>
<tr>
<td>2019</td>
<td>312.8</td>
<td>30.8</td>
<td>9.8%</td>
</tr>
</tbody>
</table>

Business Strengths
We are one of leading global companies in the oleo chemicals that handles derivatives and surfactants, primarily from fatty alcohols and surfactants with one of the largest production capacity in the world. Leveraging our core technologies including in nano-level surface modification and molecular design of performance chemicals, we offer innovative chemical products that support industry development.

The Chemical Business can also count among its strengths a global business foundation and human capital as well as a broad customer base spread across many industries.

Chemical Business Strategy
In the Chemical Business, we deliver innovative products and solutions offering value from chemicals to help customers and the industry solve issues. We make business decisions based on the criteria of whether a product or solution will benefit the environment and society. Our basic strategy is to achieve profitable growth based on this business direction and contribute to creating the future of industry and sustainability around the world.

The synergies we demonstrate with the Consumer Products Business are distinctive features of the Chemical Business. We not only supply basic raw materials for the Kao Group companies’ consumer products, the fundamental technologies that we have sophisticated through meeting the needs of world markets and customers are also applied to consumer products’ research and development.

FY2019 Results and FY2020 Activities
In FY2019, sales decreased due to effects from selling price adjustments associated with a decline in prices for natural fats and oils in oleo chemicals, and from declining global demand particularly for information materials and performance chemicals. We achieved record-high operating income with strong sales of high-value-added fats and oils derivatives outside Japan.

In FY2020, in addition to increasing our sales ratio of high-value-added products that are less affected by fluctuations in raw material prices, we will further reinforce production of eco-chemical products with reduced environmental impact and create new business. As a growth engine in particular, we intend to enhance our business in distinctive fats and oils derivatives, infrastructure-related chemicals and inkjet inks for industrial printing.
Chapter 3

Kao’s Corporate Strategy

Human Capital Development

Aiming to draw out the unlimited potential that every employee possesses to generate immense vitality, and utilize this vitality to the maximum possible extent as an organization.

Akio Matsui
Executive Officer
Senior Vice President, Human Capital Development, Global

Kao’s Human Capital Development Strategies

Up until now, we have realized sustainable growth for the company and for society by focusing on solving social issues. In the past few years, society has undergone dramatic changes, while at the same time the issues affecting society have grown more complex. To be able to respond effectively to this changing external environment, there is a real need for human capital that is able to get things done by adopting a flexible mindset that does not allow itself to be hidebound by conventional approaches. In order to develop as much of this kind of talent as possible, we are implementing human capital development initiatives that are rooted in the Kao Way, and which take as their main pillars the key concepts of Human Capital Development, Diversity & Inclusion and Building an Environment that Enhances Motivation. Through these human capital development initiatives, we are providing support so that every individual employee can be highly motivated and can generate innovation by proactively, boldly challenging themselves, thereby contributing to the future development of both Kao and society as a whole.

Enhancing Corporate Value over the Mid- to Long-term

Human Capital Development

Growth for both employees and the company.

- Developing next-generation leaders.
- Promoting diversified career paths.
- Realizing high levels of specialist expertise.

Diversity & Inclusion

Generating innovation through the participation of diverse employees.

- Promoting flexible work-styles.
- Enhancing labor productivity.
- Supporting an appropriate work-life balance.
- Promoting health management.

Building an Environment that Enhances Motivation

Strengthening motivation and engagement.

- Encouraging participation by all human capital without discrimination.
- Being accepting of diverse personalities and values, and cultivating a corporate ethos that generates vitality.

The Kao Way
Human Capital Development

### Human Capital Development Initiatives

<table>
<thead>
<tr>
<th>Items</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tbody>
<tr>
<td>Human Capital Development</td>
<td></td>
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<tr>
<td>Implementation of next-generation leader development training.</td>
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<tr>
<td>Secession planning for the holders of key positions, and promotion of success or development.</td>
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<tr>
<td>Diversity &amp; Inclusion (D&amp;I)</td>
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<tr>
<td>Establishment of the promotion department: Diversity &amp; Inclusion.*</td>
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<tr>
<td>Expansion of maternity and childcare support initiatives.</td>
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<tr>
<td>Launching of the disabled employees support system.</td>
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<tr>
<td>Awards etc.</td>
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<tr>
<td>Nadeshiko brand</td>
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<tr>
<td>Platinum Kurumini mark</td>
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<tr>
<td>Review of compensation levels (ongoing implementation of compensation in line with company performance).</td>
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<tr>
<td>Building an Environment that Enhances Motivation</td>
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<tr>
<td>Adoption of hourly leave system.</td>
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<tr>
<td>Adoption of flextime system (with no required core hours).</td>
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<tr>
<td>Introduction of mental health management stress checks.</td>
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<tr>
<td>Formulation of the Kao Health 2020 mid-term health-related plan.</td>
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<tr>
<td>Adoption of a working-from-home system.</td>
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<tr>
<td>Expansion of flextime system.</td>
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<tr>
<td>Commencement of ban on smoking during working hours.</td>
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<tr>
<td>Awards etc.</td>
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<tr>
<td>Selected as a Health and Productivity Management Stock Selection.</td>
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| Building an Environment That Enhances Motivation

It is very important to build a working environment in which employees feel motivated, so that every individual employee will be filled with enthusiasm and will proactively challenge themselves to take on difficult tasks and to innovate. With this in mind, we have been working to promote flexible working styles, enhance productivity by making work more efficient and changing attitudes, and provide support so that employees can maintain an appropriate work-life balance. Additionally, based on the perception that health is not only the foundation of the employee’s personal life, but also an asset for the company and the source of its growth, we encourage and actively support voluntary health promotion among our employees.

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Employee Survey

In order to build a better organization and a better working environment, we implement the Find employee survey on a regular basis, targeting all Kao Group employees. By converting the survey results into numerical data that can be visualized and analyzed, we can verify the strengths and weaknesses of each organizational unit, identify issues, discuss ways for realizing improvement, and draw up improvement plans. Through the implementation and review of these plans, we are able to implement the Research-Plan, Do, Check, Action (R-PDCA) cycle for organizational and workplace improvement.

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Human Capital Development

We believe that when every individual employee can continue to grow by fulfilling their work and contributing to society, this will enable us to realize sustainable growth. We recognize that, in order for Kao to be able to continue to create value for society by transforming ourselves to drive change, it is vitally important for each employee to set themselves high goals and to proactively, boldly challenge themselves to achieve something new (rather than just continuing along the same path), so that they can generate innovation. Aiming to draw out the unlimited potential that every employee possesses to generate immense vitality, and utilize this vitality to the maximum possible extent, we support employees’ growth by providing a broad range of opportunities for employees to challenge themselves and to learn.
Development Program for Next-generation Leaders

In order to realize sustainable growth, it is very important for Kao to strategically develop the next generation of talent that will manage our operations in the future. For a leader to be able to direct business operations on a global scale, they need to possess not only high-level managerial skills, but also exposure to knowledge in a wide range of fields, and the ability to strive for an effective fusion of knowledge and wisdom. We have formulated leadership values that leaders should strive to embody and integrate these values with personnel assessment, talent development and promotion decisions. We conduct 360-degree evaluations based on these leadership values as an opportunity for leadership development. Furthermore, we attach great importance to liberal arts education as a means of enabling employees to discern the essential features of each issue, and guide change by responding to problems for which there is no obvious answer, in today’s constantly changing, uncertain business environment.

Investing in Education

We provide educational programs and career development opportunities tailored to the individual growth aspirations of each of our diverse employees. In order to develop talent that will drive growth for Kao and sustainable growth for society, the Kao Group as a whole invests around 1.7 billion yen per year (on a global basis) in human capital development programs.

<table>
<thead>
<tr>
<th>Education and training expenses per employee</th>
<th>51,000 yen (FY2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Kao Group Education and Training Expenditure (actual performance)</td>
<td>1.73 billion yen (FY2019)</td>
</tr>
</tbody>
</table>

We aim to help create a society in which everyone can participate fully and with enthusiasm, regardless of gender, nationality, ethnic background, age or disability, etc. We believe that bringing together talent from different backgrounds and with diverse value-schemes to generate creativity through free and open-minded discussion will lead to innovation. Based on this approach, we are actively promoting diversity and inclusion.

Fostering Participation by Diverse Talent

In order to generate innovation and address complex social issues, it is vitally important for each individual to accept one another’s characteristics, leverage their strengths and create synergy. To realize this goal, we have adopted a common global framework in line with our Guidelines for Human Capital Development, and we are promoting, on a worldwide basis, the building of workplaces in which employees from many different nationalities can work together with strong motivation.

A further point is that female consumers constitute a large share of the buyers of the cosmetics products, household goods etc. which constitute our main product lines. By attaching great importance to the views expressed by female employees at the product development and marketing stages in our business operations, we have been able to achieve growth as a manufacturer of consumer goods. As a result of our efforts to thoroughly implement evaluation and appointment based on motivation and ability, our putting in place of a system to support work-life balance and systems that facilitate flexible working styles, and the building of a work environment in which these systems can be properly utilized, there has been a steady increase in the number of female managers at Kao (including our overseas operations), and as of December 2019 female managers accounted for 29.4% of all Kao managers. 15.4% of Kao’s directors and Audit & Supervisory Board Members are female, and 13 Kao Group companies have a female CEO.

A further point is that, when it comes to promoting universal design, the viewpoint of persons with disabilities must be taken into account. In line with our positioning of ESG-driven management as a core aspect of our business, and with our goal of realizing the Kirei Lifestyle, Kao joins The Valuable 500* initiative.

<table>
<thead>
<tr>
<th>Percentage of female managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
</tr>
<tr>
<td><img src="chart.png" alt="" /></td>
</tr>
</tbody>
</table>

* The Valuable 500 is an international initiative aimed at linking disabled people with business enterprises, which was launched at the 2010 World Economic Forum in Davos.
Finance

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
Senior Vice President, Accounting and Finance, Global

Kao’s Financial Foundation

Kao is aiming to realize sustainable, profitable growth and to enhance corporate value, by adopting an ESG Strategy that seeks to create value over the long term while also taking steps to address social issues, and by making Economic Value Added (EVA®) that is consistent with the long-term interests of all stakeholders a key management metric.

In order to realize further growth, while actively promoting our business activities, we also emphasize shareholder returns. Besides achieving cash dividend increases for 30 consecutive fiscal years and undertaking flexible share repurchases, we have also implemented efficient fund utilization through effective global cash management, and have maintained a stable financial foundation. Our high profitability and stable cash flow have enabled us to maintain high credit ratings, and we have been able to respond flexibly to opportunities for investment that can lead to future growth. Through the adoption of a global managerial accounting system that makes global earning management faster and more efficient, and through the proactive implementation of new initiatives such as the use of Robotic Process Automation (RPA) to enhance operational efficiency, we are working hard to boost profits.

In regard to the realization of the Kao Group Mid-term Plan 2020 (K20), in FY2019 operating margin was 14.1% with operating income of 211.7 billion yen, breaking the company’s profit record for the 7th consecutive year in a row. ROE was 17.6%.

Use of Cash Flow and Shareholder Returns

We effectively utilize the stable operating cash flow, generated steadily from an EVA perspective, as shown below. We are aiming 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 at our business locations both within and outside Japan.

In the Consumer Products Business, and particularly in the Human Health Care Business, we have expanded the capacity of our domestic production bases to respond to demand both in and outside Japan, and we have also made proactive capital expenditures in elsewhere in Asia, which has strong growth potential. In the Chemical Business, we are aiming to reinforce our production infrastructure and actively investing not only in Asia, but also in the Americas and Europe.

Our goal in M&A activity is to obtain outstanding technologies and business models, with a particular focus on B-to-B business in our business for hair salons, professional-use products business and the Chemical Business, and to build up new assets aimed at expanding and creating synergy with Kao’s core technologies in line with the ESG Strategy.

Cash Dividends/Share Repurchases

We place emphasis on steady and continuous cash dividends, and in FY2019, achieved cash dividend increases for the 30th consecutive year. Stable growth in cash flows from operating activities was accompanied in FY2019 by an increase in the cash dividend per share to 130 yen. With regard to share repurchases aimed at enhancing the company’s capital efficiency, in FY2019 we implemented 50 billion yen of share repurchases, bringing the cumulative total to 593.8 billion yen.

We have made a commitment to deliver a high level of stakeholder returns in the future. We aim to continue to implement cash dividend increases.

Performance of Cash Dividends per Share

Trend in Capital Investments

Status of Share Repurchases

Performance of Cash Dividends per Share

*3 Excluding right-of-use assets.

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

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

The Strategic Innovative Technology Team (SIT) was established in April 2018 to promote a strategic digital transformation (DX) and to realize business transformation and enhancement of operational efficiency through the effective utilization of cutting-edge technology. Starting in FY2020, we are beginning to operate a number of systems that so far have been launched on a trial basis. This will fundamentally reduce the amount of manual tasks that employees have previously had to do and create time for them to devote to creative work. We are also making progress on building a new, digital-based business structure to further expand our global business.

Digital transformation target fields

Sales
- AI customer service system
  - Advanced premium customer service
  - Customer service using robots (without staff)
- AI delivery system
  - Automated delivery maximizing efficiency
  - Delivery with cross-industry cooperation

Research
- Comprehensive research support system
  - Full automation of routine tasks
  - Research creation support

Logistics
- AI delivery system
  - Automated delivery maximizing efficiency
  - Delivery with cross-industry cooperation

Business
- Internal-based monitoring and strategic systems
  - Digital visualization of things and information
  - Product channel maximization system

Management
- Management support system
  - Integrated information selection
  - Strategy success prediction

Customer Service
- AI-based financial control systems
  - Automated, high-speed manufacturing
  - 24-hour plant operations
  - Delivery with cross-industry cooperation

Product Management
- Product development system
  - Integrated information selection
  - Strategy success prediction

HR
- Human capital development support system
  - Support for global development venues
  - Risk monitoring and opportunity provision

Finance
- AI-based financial control systems
  - Financial management support and forecasting
  - Management simulations

Corporate Governance

FY2019 Main Initiatives in Digital Fields

<table>
<thead>
<tr>
<th>Theme</th>
<th>Main initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integration of all Kao systems</td>
<td>We are building an operations system offering higher usability that integrates the vast amount of data from manufacturing and elsewhere that exists inside Kao. Using AI, we are dramatically improving efficiency in management, business and elsewhere. Presently, we are aiming to complete a management support system to maximize both customer satisfaction and business growth. Relating to human capital, we are building a new integrated system able to consolidate and centrally manage personnel information that until now has been scattered across systems, and in the area of governance, we are strengthening our system to quickly pick up feedback from employees and ensure transparency internally.</td>
</tr>
<tr>
<td>Application of cutting-edge technologies</td>
<td>We are mobilizing cutting-edge AI to further raise our speed and quality in research fields. In the collaborative project with Preferred Networks (PFN) announced in FY2019, we are combining our bioscience technologies and PFN’s cutting-edge deep learning technologies with the aim of realizing a new world where monitoring of beauty and health can easily be done anywhere and anytime.</td>
</tr>
<tr>
<td>Business, sales and co-creation reforms</td>
<td>We are building a system to get input in a timely manner on market, distribution and consumer reactions, aiming to minimize opportunity loss from supply shortages as well as goods and energy loss from inventory and disposal due to excessive production. In addition, we will maximize factory and logistics warehouse efficiency to, along with high-speed production and minimized changeover production, dramatically improve our productivity per unit area. At the same time, to provide value that meets strong individual needs, we will introduce unit construction differing from the mass-production model and AI technologies to enhance our offering capabilities. We are also collaborating with companies that have cutting-edge augmented reality and virtual reality technologies to provide attractive product value experiences in our search for means to effectively communicate product information. Using AI, we will redesign how we conduct market research, product development and sales leveraging online sales and social networks. In fields where we are encouraging open innovation together with other companies and universities, we will improve our technology content and intellectual property and publicize our technologies.</td>
</tr>
<tr>
<td>Digital work-style reforms</td>
<td>Using digital technologies, we are implementing trials of ways to maximize employee productivity with appropriate work time management. For example, we have started implementing a system that allows employees who have work limitations due to maternity leave, caregiving and so on to work remotely. We have also connected a network of satellite laboratories and offices that replace centralized offices, and have introduced a digital portal that is always available and robot assistants. As a result of building a system that reduces commute times and enables more productive work styles, we are also achieving results in minimizing time and space limitations.</td>
</tr>
</tbody>
</table>
Risk and Crisis Management

Strategic management of risks and crises supports Kao to make contributions to the sustainability of the world through its business activities and to achieve sustainable and profitable growth by ESG-driven management.

Shigeru Ueyama
Managing Executive Officer, Senior Vice President, Corporate Strategy, Global

Basic Policy
We regard potential negative impacts on the achievement of the management targets and business activities as a “risk,” and the manifestation of such risk as a “crisis.” We appropriately manage the various risks and crises that could occur across our businesses following the response priority detailed in the Kao Risk and Crisis Management Policy (1. Protection of human lives 2. Environmental conservation 3. Continuation of operations 4. Protection of assets).

Risk and Crisis Management System
The Risk and Crisis Management Committee establishes the management system and activity guideline for risk and crisis management. Divisions, subsidiaries and affiliates conduct risk management by ascertaining and evaluating risks, and formulating and implementing countermeasures based on the activity guideline.

In addition, when a crisis arises an Emergency Response Team is launched corresponding to the severity of the emergency to promptly and appropriately address the crisis in order to minimize physical damages and financial losses. These efforts are reported to the Management Committee and the Board of Directors at regular intervals and other times as needed.

Clarifying Main Risks and Enhancing Our Counter Response
As risks with negative impact on our contributions to sustainability of the world through business activities, and on sustainable and profitable growth, the Risk and Crisis Management Committee and Management Committee have defined the 13 main risks of special importance and our response initiatives.

These main risks include risks related to social issues, which we are addressing based on our ESG Strategy, the Kirei Lifestyle Plan.

Process to Decide Corporate Risk Themes

- Internal and external risk analysis
- Defining themes and persons responsible
- Establishing systems

Internal risk surveys
- Assessment of the external environment
- Interviews with management
- Deliberation in the Management Committee
- Forming the response team
- Formulating action plans

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Corporate Risks and Main Initiatives in FY2019

<table>
<thead>
<tr>
<th>Theme</th>
<th>Details of risks</th>
<th>Main initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in the distribution environment</td>
<td>- Risks that would prevent conducting appropriate sales activities for the changes in the distribution environment.</td>
<td>- We have conducted activities to collaborate with digital platforms operating globally.</td>
</tr>
<tr>
<td>Risks related to business in Asia</td>
<td>- Risks that would cause significant delays in the business plan for Asia.</td>
<td>- We have strengthened our system to respond quickly to tightened laws and regulations in Asian countries as a priority theme.</td>
</tr>
<tr>
<td>Response to product quality issues</td>
<td>- Risks of serious quality issues arising that would cause trust in Kao to fail.</td>
<td>- We are enhancing internal education and other initiatives to respond when serious quality issues arise and prevent their occurrence.</td>
</tr>
<tr>
<td>Large-scale earthquakes and other natural disasters</td>
<td>- Risks of obstacles to supplying markets with products caused by large-scale earthquakes or other natural disasters.</td>
<td>- We have enhanced our preparedness in terms of both “hard” and “soft” aspects for natural disasters including large-scale typhoons and floods as a result of climate change. In addition, we have enhanced our preparedness for large-scale earthquakes by conducting emergency response training and BCP training.</td>
</tr>
<tr>
<td>Pandemics</td>
<td>- Risks of business suspension due to pandemics from new strains of influenza or other diseases.</td>
<td>- We have rebuffed our system and countermeasures to be able to quickly address the spread of infectious diseases globally, have formulated detailed action plans that place top priority on human life, including dealing appropriately with persons with symptoms, and have proceeded to make preparations for possible pandemics.</td>
</tr>
<tr>
<td>Personal information protection</td>
<td>- Risks of personal information leaks caused by intentional acts including cyber attacks or negligence.</td>
<td>- We have created a response flow when incidents arise and are conducting response training. We are also strengthening our global system for information security and personal information protection.</td>
</tr>
<tr>
<td>Reputation risks</td>
<td>- Risks that cause damage to corporate trust and brand value due to the spread of critical evaluations and rumors against the Kao Group.</td>
<td>- We have developed our system to monitor external information and are strengthening our emergency response system for when a reputation risk arises.</td>
</tr>
<tr>
<td>Risks associated with the use of digital media</td>
<td>- Significant risks associated with the use of digital media.</td>
<td>- We have established guidelines and are conducting internal education for risks that could lead to reputation risks, including inappropriate expression and stealth marketing in advertising and other communications.</td>
</tr>
<tr>
<td>Currency exchange rate fluctuations</td>
<td>- Risks associated with exchange rate fluctuations.</td>
<td>- We have investigated the structure of exchange rate fluctuation risks and our response and have confirmed our future response direction.</td>
</tr>
</tbody>
</table>

Of these main risks, we designate risks that would have a particularly large impact on our management and that we need to strengthen our response to as “corporate risks.” Once a year, the Management Committee reviews the risk themes and persons responsible for addressing them (Executive Officers) based on internal and external risk analysis and interviews with management, and the Risk and Crisis Management Committee manages the progress.
In FY2019, Kao announced that it would be making a major shift to ESG-driven management. As a result of our efforts to further enhance ESG-related initiatives, this has been a year in which we received high evaluation for our efforts on behalf of society. In this section, we introduce some of our representative ESG initiatives, and how they were evaluated by external organizations.

**Began providing support for the Menstrual Hygiene Improvement Project in Uganda.**

**Kao received the highest rating for water in international NPO CDP’s evaluation.**

**Announced Kao’s ESG Strategy, the Kirei Lifestyle Plan.**

**Kao’s Tochigi Plant and Toyohashi Plant began operation of photovoltaic power generation.**

**Participated, as a member of Japan TCGF, in the formulation of policies to address the issue of plastic waste.**

**Took part in the G20 Innovation Exhibition.**

**Kao’s GHG reduction targets approved by the Science Based Targets initiative.**

**Kao announced that it was taking on new challenges, in line with its major shift toward ESG-driven management.**

**Kao was, for the first time, selected for inclusion in the 2019 Bloomberg Gender-Equality Index, which identifies companies that are committed to transparency in gender reporting and to advancing equality for women.**

**Selected as one of the World’s Most Ethical Companies® (13th consecutive year).**

**Selected as a Health and Productivity Management Brand for the fifth consecutive year.**

**Recognized as Supplier Engagement Leader by CDP, in the Supplier Engagement Leader for the second year in a row.**

**Kao’s Raku-raku Eco Pack Refill and Smart Holder products won the Minister of the Environment’s Award in the Innovation section of the Umigomi (marine litter) Zero Awards.**

**Won the Minister of Economy, Trade and Industry Award in the Green & Sustainable Chemistry (GSC) Awards for Kao’s realization of printing technology that allows printing on soft plastic film using water-based ink-jet ink.**

**U.S.-based Washing Systems, LLC won an award in the Green Chemistry Challenge Awards.**

**Won the Prime Minister’s Prize in the 3Rs (Reduce, Reuse, Recycle) Promotion Merit Awards.**

**Won the Prime Minister’s Award in the Awards for Companies that have Played a Leading Role in Furthering Women’s Advancement.**

**Won 2019 Environment Minister’s Award for Global Warming Prevention Activity in the Implementation and Discrimination of Countermeasures Category.**
Non-financial and Financial Highlights

Key Points

- Selected as one of the World’s Most Ethical Companies® for the 14th consecutive year (February 2020)
- Selected for inclusion in the Dow Jones Sustainability Index (DJSI) World and DJSI Asia Pacific® for the sixth year in a row
- Received an A evaluation from the Carbon Disclosure Project (CDP) in the climate change, water, and supplier engagement categories, and an A- evaluation in the forests categories
- Operating income grew for the tenth consecutive year and reached a record high for the seventh consecutive year, reflecting Kao’s sustainable growth.
- Continued returns to shareholders, marking the 30th consecutive year of increase in cash dividend growth.

CO₂ Emissions across the Product Lifecycle*3

<table>
<thead>
<tr>
<th>Year</th>
<th>Emissions (Thousands of tons)</th>
<th>Reduction Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>12,000</td>
<td>-30</td>
</tr>
<tr>
<td>2006</td>
<td>11,910</td>
<td>-18</td>
</tr>
<tr>
<td>2007</td>
<td>11,899</td>
<td>-13</td>
</tr>
<tr>
<td>2008</td>
<td>11,863</td>
<td>-0</td>
</tr>
<tr>
<td>2009</td>
<td>11,834</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>11,805</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>11,774</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>11,740</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>11,730</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>11,727</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>11,709</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>11,699</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>11,699</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>11,699</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>11,699</td>
<td></td>
</tr>
</tbody>
</table>

Water Use across the Product Lifecycle*3

<table>
<thead>
<tr>
<th>Year</th>
<th>Use (Thousands of tons)</th>
<th>Reduction Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>3,000</td>
<td>-30</td>
</tr>
<tr>
<td>2006</td>
<td>2,970</td>
<td>-18</td>
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<tr>
<td>2007</td>
<td>2,961</td>
<td>-13</td>
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<tr>
<td>2008</td>
<td>2,961</td>
<td>-0</td>
</tr>
<tr>
<td>2009</td>
<td>2,961</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>2,961</td>
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<tr>
<td>2018</td>
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<td></td>
</tr>
<tr>
<td>2019</td>
<td>2,961</td>
<td></td>
</tr>
</tbody>
</table>

External Evaluation

- Received an A evaluation from the Carbon Disclosure Project (CDP)*2 in the climate change, water, and supplier engagement categories, and an A- evaluation in the forests categories.
- Received a BBB evaluation from the Social Responsibility Index (SRI)*4.
- Received a BBB evaluation from the Dow Jones Sustainability World Index (DJSI World)*1.
- Continued to maintain an A rating in the CDP’s (climate change) index.
- Received an A rating in the CDP’s (water security) index.
- Received an A rating in the CDP’s (supply chain) index.
- Continued to maintain an A rating in the MSCI ESG Leaders Indexes.
- Received an A- evaluation from the Chemical Products Sustainability Index (CPSI)*5.
- Received an A rating from the Kao Monozukuri Strategy (KMS)*6.
- Received an A rating from the Kao’s Corporate Strategy Performance in FY2019 (KCS)*7.
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- Received an A rating from the Kao’s Corporate Strategy Performance in FY2019 (KCS)*7.

Net Sales/Operating Income/Operating Margin

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (Billions of yen)</th>
<th>Operating Income (Billions of yen)</th>
<th>Operating Margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>40.0</td>
<td>5.0</td>
<td>12.5</td>
</tr>
<tr>
<td>2006</td>
<td>42.0</td>
<td>6.0</td>
<td>14.3</td>
</tr>
<tr>
<td>2007</td>
<td>44.3</td>
<td>7.3</td>
<td>16.5</td>
</tr>
<tr>
<td>2008</td>
<td>49.0</td>
<td>8.7</td>
<td>17.6</td>
</tr>
<tr>
<td>2009</td>
<td>53.6</td>
<td>10.0</td>
<td>18.6</td>
</tr>
<tr>
<td>2010</td>
<td>58.7</td>
<td>12.7</td>
<td>21.7</td>
</tr>
<tr>
<td>2011</td>
<td>60.7</td>
<td>13.6</td>
<td>22.6</td>
</tr>
<tr>
<td>2012</td>
<td>64.8</td>
<td>14.1</td>
<td>22.1</td>
</tr>
<tr>
<td>2013</td>
<td>69.4</td>
<td>15.2</td>
<td>22.3</td>
</tr>
<tr>
<td>2014</td>
<td>73.4</td>
<td>16.3</td>
<td>22.4</td>
</tr>
<tr>
<td>2015</td>
<td>77.4</td>
<td>17.4</td>
<td>22.5</td>
</tr>
<tr>
<td>2016</td>
<td>80.0</td>
<td>18.6</td>
<td>23.3</td>
</tr>
<tr>
<td>2017</td>
<td>83.4</td>
<td>19.8</td>
<td>23.6</td>
</tr>
<tr>
<td>2018</td>
<td>85.4</td>
<td>20.0</td>
<td>23.5</td>
</tr>
<tr>
<td>2019</td>
<td>87.4</td>
<td>20.0</td>
<td>23.5</td>
</tr>
</tbody>
</table>

EVA®**

<table>
<thead>
<tr>
<th>Year</th>
<th>EVA® (Billion yen)</th>
<th>ROE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>1.0</td>
<td>16.1</td>
</tr>
<tr>
<td>2006</td>
<td>1.0</td>
<td>16.1</td>
</tr>
<tr>
<td>2007</td>
<td>1.0</td>
<td>18.4</td>
</tr>
<tr>
<td>2008</td>
<td>1.0</td>
<td>18.4</td>
</tr>
<tr>
<td>2009</td>
<td>1.0</td>
<td>18.4</td>
</tr>
<tr>
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<td>18.4</td>
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<td>18.4</td>
</tr>
<tr>
<td>2012</td>
<td>1.0</td>
<td>18.4</td>
</tr>
<tr>
<td>2013</td>
<td>1.0</td>
<td>18.4</td>
</tr>
<tr>
<td>2014</td>
<td>1.0</td>
<td>18.4</td>
</tr>
<tr>
<td>2015</td>
<td>1.0</td>
<td>18.4</td>
</tr>
<tr>
<td>2016</td>
<td>1.0</td>
<td>18.4</td>
</tr>
<tr>
<td>2017</td>
<td>1.0</td>
<td>18.4</td>
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<tr>
<td>2018</td>
<td>1.0</td>
<td>18.4</td>
</tr>
<tr>
<td>2019</td>
<td>1.0</td>
<td>18.4</td>
</tr>
</tbody>
</table>

Net Sales/Operating Income/Operating Margin

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (Billions of yen)</th>
<th>Operating Income (Billions of yen)</th>
<th>Operating Margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>40.0</td>
<td>5.0</td>
<td>12.5</td>
</tr>
<tr>
<td>2006</td>
<td>42.0</td>
<td>6.0</td>
<td>14.3</td>
</tr>
<tr>
<td>2007</td>
<td>44.3</td>
<td>7.3</td>
<td>16.5</td>
</tr>
<tr>
<td>2008</td>
<td>49.0</td>
<td>8.7</td>
<td>17.6</td>
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<tr>
<td>2009</td>
<td>53.6</td>
<td>10.0</td>
<td>18.6</td>
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<tr>
<td>2010</td>
<td>58.7</td>
<td>12.7</td>
<td>21.7</td>
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<td>2011</td>
<td>60.7</td>
<td>13.6</td>
<td>22.6</td>
</tr>
<tr>
<td>2012</td>
<td>64.8</td>
<td>14.1</td>
<td>22.1</td>
</tr>
<tr>
<td>2013</td>
<td>69.4</td>
<td>15.2</td>
<td>22.4</td>
</tr>
<tr>
<td>2014</td>
<td>73.4</td>
<td>16.3</td>
<td>22.5</td>
</tr>
<tr>
<td>2015</td>
<td>77.4</td>
<td>17.4</td>
<td>22.5</td>
</tr>
<tr>
<td>2016</td>
<td>80.0</td>
<td>18.6</td>
<td>23.3</td>
</tr>
<tr>
<td>2017</td>
<td>83.4</td>
<td>19.8</td>
<td>23.6</td>
</tr>
<tr>
<td>2018</td>
<td>85.4</td>
<td>20.0</td>
<td>23.5</td>
</tr>
<tr>
<td>2019</td>
<td>87.4</td>
<td>20.0</td>
<td>23.5</td>
</tr>
</tbody>
</table>

Cost of Goods Sold (Cost of Goods Sold Dollar Amount)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost of Goods Sold (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>30.0</td>
</tr>
<tr>
<td>2006</td>
<td>32.7</td>
</tr>
<tr>
<td>2007</td>
<td>35.7</td>
</tr>
<tr>
<td>2008</td>
<td>38.7</td>
</tr>
<tr>
<td>2009</td>
<td>41.7</td>
</tr>
<tr>
<td>2010</td>
<td>44.7</td>
</tr>
<tr>
<td>2011</td>
<td>47.7</td>
</tr>
<tr>
<td>2012</td>
<td>50.7</td>
</tr>
<tr>
<td>2013</td>
<td>53.7</td>
</tr>
<tr>
<td>2014</td>
<td>56.7</td>
</tr>
<tr>
<td>2015</td>
<td>59.7</td>
</tr>
<tr>
<td>2016</td>
<td>62.7</td>
</tr>
<tr>
<td>2017</td>
<td>65.7</td>
</tr>
<tr>
<td>2018</td>
<td>68.7</td>
</tr>
<tr>
<td>2019</td>
<td>71.7</td>
</tr>
</tbody>
</table>

R&D Expenses/R&D Expenses Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>R&amp;D Expenses (Billions of yen)</th>
<th>Percentage of Net Sales (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.0</td>
<td>2.5</td>
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<tr>
<td>2016</td>
<td>1.0</td>
<td>2.6</td>
</tr>
<tr>
<td>2017</td>
<td>1.0</td>
<td>2.7</td>
</tr>
<tr>
<td>2018</td>
<td>1.0</td>
<td>2.8</td>
</tr>
<tr>
<td>2019</td>
<td>1.0</td>
<td>2.9</td>
</tr>
</tbody>
</table>
Non-financial Data

Kao has set targets to be achieved by 2020 on nine priority actions based on the Sustainability Statement established in 2013 and has reported on progress. We established the Kirei Lifestyle Plan in 2019, set 19 new priority actions, and are implementing them.

Conservation

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Vision</th>
<th>Items</th>
<th>Results</th>
<th>Targets</th>
<th>SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Results</td>
<td>Targets</td>
<td>SDGs</td>
</tr>
<tr>
<td>Environment</td>
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<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Promote further environmental activities by engaging in environmental communication with society.

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Vision</th>
<th>Items</th>
<th>Results</th>
<th>Targets</th>
<th>SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Results</td>
<td>Targets</td>
<td>SDGs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Corporate Culture

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Vision</th>
<th>Items</th>
<th>Results</th>
<th>Targets</th>
<th>SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Results</td>
<td>Targets</td>
<td>SDGs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Kao's Corporate Strategy Performance in FY2019


Results

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Vision</th>
<th>Items</th>
<th>Results</th>
<th>Targets</th>
<th>SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Results</td>
<td>Targets</td>
<td>SDGs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Financial Data

#### Historical Data

<table>
<thead>
<tr>
<th>IFRS</th>
<th>(Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the year:</td>
<td></td>
</tr>
<tr>
<td>Economic Value Added (EVA®)</td>
<td>87,403</td>
</tr>
</tbody>
</table>

| Net sales | 1,502,241 | 1,508,007 | 1,489,421 | 1,457,810 | 1,474,550 |

| Operating income | 211,723 | 207,703 | 204,791 | 185,571 | 167,318 |

| % of sales | 14.1 | 13.8 | 13.7 | 12.7 | 11.3 |

| Income before income taxes | 210,645 | 205,271 | 202,290 | 183,430 | 168,038 |

| Net income | 150,349 | 155,331 | 149,607 | 127,889 | 105,952 |

| Net income attributable to owners of the parent | 148,213 | 153,698 | 147,010 | 126,551 | 105,196 |

| Net cash flows from operating activities | 244,523 | 195,610 | 185,845 | 184,307 | 161,872 |

| Net cash flows from investing activities | (94,266) | (113,387) | (83,369) | (83,320) | (70,925) |

| Free cash flow | 128,259 | 82,224 | 102,476 | 100,987 | 90,947 |

| Net cash flows from financing activities | (126,166) | (106,579) | (63,244) | (59,043) | (40,778) |

| Capital expenditures | 113,387 | 89,097 | 79,355 | 89,900 | 82,848 |

| Depreciation and amortization | 85,369 | 60,692 | 54,608 | 51,116 | 57,423 |

| Research and development expenses | 59,143 | 57,673 | 56,703 | 54,567 | 52,699 |

| % of sales | 3.9 | 3.8 | 3.8 | 3.7 | 3.6 |

| Advertising | 77,545 | 89,937 | 97,437 | 94,745 | 89,255 |

| % of sales | 5.2 | 5.3 | 6.0 | 6.7 | 6.4 |

| At year end: | | | | | |

| Total assets | 1,653,919 | 1,460,986 | 1,427,375 | 1,338,309 | 1,311,084 |

| Equity attributable to owners of the parent | 857,695 | 822,380 | 806,381 | 760,842 | 680,096 |

| Ratio of equity attributable to owners of the parent to total assets (%) | 51.9 | 56.3 | 56.5 | 50.8 | 51.9 |

| Number of employees (people) | 33,603 | 33,664 | 33,660 | 33,195 | 32,282 |

| Per share: | | | | | |

| Basic earnings per share (EPS) (yen) | 306.70 | 314.25 | 298.30 | 253.43 | 209.82 |

| Annual cash dividends per share (yen) | 130.00 | 120.00 | 110.00 | 94.00 | 80.00 |

| Number of issued shares, including treasury shares, at the end of the year (in thousands of shares) | 482,000 | 488,700 | 495,000 | 504,000 | 504,000 |

| Share price at the end of the year (yen) | 9,025 | 8,154 | 7,619 | 5,841 | 6,265 |

#### Key financial ratios:

| Ratio of net income to equity attributable to owners of the parent (ROE) (%) | 17.6 | 18.9 | 19.8 | 18.6 | 16.1 |

| Ratio of income before income taxes to total assets (ROA) (%) | 13.5 | 14.4 | 14.8 | 13.8 | 13.1 |

---

1. The Kao Group adopted IFRS for the fiscal year ended December 31, 2016.
2. Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities.
3. Cash flows from operating activities is adjusted for depreciation of right-of-use assets.
4. Capital expenditures include investments in property, plant and equipment, intangible assets, and other non-current assets.
5. IFRS is a registered trademark of IASB Stewart & Co.
Financial Data

Consolidated Statement of Financial Position

<table>
<thead>
<tr>
<th></th>
<th>Current fiscal year (As of December 31, 2019)</th>
<th>Previous fiscal year (As of December 31, 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>289,681</td>
<td>265,978</td>
</tr>
<tr>
<td>Inventories</td>
<td>199,672</td>
<td>197,571</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>13,788</td>
<td>15,146</td>
</tr>
<tr>
<td>Income tax receivables</td>
<td>2,440</td>
<td>2,666</td>
</tr>
<tr>
<td>Other current assets</td>
<td>22,605</td>
<td>22,435</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>737,026</td>
<td>726,312</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>436,831</td>
<td>418,935</td>
</tr>
<tr>
<td>Goodwill</td>
<td>179,707</td>
<td>180,286</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>47,770</td>
<td>46,549</td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>8,287</td>
<td>7,961</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>26,104</td>
<td>25,549</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>47,876</td>
<td>49,158</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>5,496</td>
<td>6,275</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>916,893</td>
<td>734,074</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,653,919</td>
<td>1,460,986</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Liabilities and equity</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>222,314</td>
</tr>
<tr>
<td>Bonds and borrowings</td>
<td>25,505</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>19,653</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>8,766</td>
</tr>
<tr>
<td>Income tax payables</td>
<td>38,208</td>
</tr>
<tr>
<td>Provisions</td>
<td>2,054</td>
</tr>
<tr>
<td>Contract liabilities</td>
<td>20,416</td>
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<tr>
<td>Other current liabilities</td>
<td>99,411</td>
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<tr>
<td><strong>Total current liabilities</strong></td>
<td>432,527</td>
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<tr>
<td>Non-current liabilities</td>
<td></td>
</tr>
<tr>
<td>Bonds and borrowings</td>
<td>101,636</td>
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<tr>
<td>Lease liabilities</td>
<td>14,288</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>7,827</td>
</tr>
<tr>
<td>Retirement benefit liabilities</td>
<td>80,697</td>
</tr>
<tr>
<td>Provisions</td>
<td>10,742</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>3,747</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>4,592</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>349,571</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>782,498</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>85,424</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>700,839</td>
</tr>
<tr>
<td>Equity attributable to owners of the parent</td>
<td>651,895</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>13,726</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>871,421</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>1,653,919</td>
</tr>
</tbody>
</table>

Consolidated Statement of Income

<table>
<thead>
<tr>
<th></th>
<th>Current fiscal year (January 1, 2019–December 31, 2019)</th>
<th>Previous fiscal year (January 1, 2018–December 31, 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>1,602,241</td>
<td>1,508,007</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>(848,723)</td>
<td>(853,968)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>753,518</td>
<td>654,018</td>
</tr>
<tr>
<td><strong>Selling, general and administrative expenses</strong></td>
<td>(442,912)</td>
<td>(444,845)</td>
</tr>
<tr>
<td><strong>Other operating income</strong></td>
<td>15,192</td>
<td>14,209</td>
</tr>
<tr>
<td><strong>Other operating expenses</strong></td>
<td>(14,075)</td>
<td>(15,758)</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>211,723</td>
<td>207,703</td>
</tr>
<tr>
<td><strong>Financial income</strong></td>
<td>2,027</td>
<td>1,717</td>
</tr>
<tr>
<td><strong>Financial expenses</strong></td>
<td>(5,221)</td>
<td>(4,251)</td>
</tr>
<tr>
<td><strong>Share of profit in investments accounted for using the equity method</strong></td>
<td>2,126</td>
<td>2,082</td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td>210,645</td>
<td>207,715</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td>(60,296)</td>
<td>(61,265)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>150,349</td>
<td>155,331</td>
</tr>
<tr>
<td><strong>Attributable to:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owners of the parent</td>
<td>148,213</td>
<td>153,698</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>2,136</td>
<td>1,653</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>150,349</td>
<td>155,331</td>
</tr>
</tbody>
</table>

Consolidated Statement of Comprehensive Income

<table>
<thead>
<tr>
<th></th>
<th>Current fiscal year (January 1, 2019–December 31, 2019)</th>
<th>Previous fiscal year (January 1, 2018–December 31, 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income</strong></td>
<td>150,349</td>
<td>155,331</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items that will not be reclassified to profit or loss:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income</td>
<td>(8)</td>
<td>(2)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>(1,189)</td>
<td>(15,524)</td>
</tr>
<tr>
<td>Share of other comprehensive income of investments accounted for using the equity method</td>
<td>(7)</td>
<td>(945)</td>
</tr>
<tr>
<td><strong>Total of items that will not be reclassified to profit or loss</strong></td>
<td>(1,203)</td>
<td>(15,871)</td>
</tr>
<tr>
<td>Items that may be reclassified subsequently to profit or loss:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange differences on translation of foreign operations</td>
<td>(2,489)</td>
<td>(16,140)</td>
</tr>
<tr>
<td><strong>Total of items that may be reclassified subsequently to profit or loss</strong></td>
<td>(2,525)</td>
<td>(16,213)</td>
</tr>
<tr>
<td><strong>Comprehensive income</strong></td>
<td>148,821</td>
<td>139,241</td>
</tr>
<tr>
<td><strong>Comprehensive income attributable to:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owners of the parent</td>
<td>144,508</td>
<td>122,324</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>2,136</td>
<td>1,653</td>
</tr>
<tr>
<td><strong>Comprehensive income</strong></td>
<td>146,641</td>
<td>123,979</td>
</tr>
</tbody>
</table>
### Consolidated Statement of Changes in Equity

#### Current fiscal year (January 1, 2019—December 31, 2019) (Millions of yen)

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Capital surplus</th>
<th>Treasury shares</th>
<th>Other components of equity</th>
<th>Equity attributable to owners of the parent</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Net gain (loss) on derivatives designated as cash flow hedges</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>January 1, 2019 (as previously reported)</td>
<td>85,424</td>
<td>108,245</td>
<td>(11,282)</td>
<td>740</td>
<td>448</td>
<td>(37,032)</td>
</tr>
<tr>
<td>Changes in accounting policy*</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>January 1, 2019 (after adjustment)</td>
<td>85,424</td>
<td>108,245</td>
<td>(11,282)</td>
<td>740</td>
<td>448</td>
<td>(37,032)</td>
</tr>
<tr>
<td>Net income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Disposal of treasury shares</td>
<td>—</td>
<td>(108)</td>
<td>57,006</td>
<td>(56)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>—</td>
<td>—</td>
<td>(50,033)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Share-based payment transactions</td>
<td>—</td>
<td>—</td>
<td>337</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Dividends</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Changes in the ownership interest in subsidiaries</td>
<td>—</td>
<td>241</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Transfer from other components of equity to retained earnings</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total transactions with the owners</td>
<td>—</td>
<td>15,539</td>
<td>13,827</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>December 31, 2019</td>
<td>85,424</td>
<td>108,715</td>
<td>4,300</td>
<td>448</td>
<td>(37,032)</td>
<td>(1)</td>
</tr>
</tbody>
</table>

#### Previous fiscal year (January 1, 2018—December 31, 2018) (Millions of yen)

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Capital surplus</th>
<th>Treasury shares</th>
<th>Other components of equity</th>
<th>Equity attributable to owners of the parent</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Net gain (loss) on derivatives designated as cash flow hedges</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>January 1, 2018</td>
<td>85,424</td>
<td>107,890</td>
<td>(9,593)</td>
<td>731</td>
<td>(21,540)</td>
<td>4</td>
</tr>
<tr>
<td>Net income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Disposal of treasury shares</td>
<td>—</td>
<td>(56)</td>
<td>40,345</td>
<td>(167)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>—</td>
<td>—</td>
<td>(50,033)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Share-based payment transactions</td>
<td>—</td>
<td>—</td>
<td>337</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Dividends</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Transfer from other components of equity to retained earnings</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other increase (decrease)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total transactions with the owners</td>
<td>—</td>
<td>265</td>
<td>(1,683)</td>
<td>(185)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>December 31, 2018</td>
<td>85,424</td>
<td>108,245</td>
<td>(11,282)</td>
<td>546</td>
<td>(37,032)</td>
<td>(1)</td>
</tr>
</tbody>
</table>

* It represents the financial effect from the adoption of IFRS 16, "Leases."
### Financial Data

#### Consolidated Statement of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>Current fiscal year (January 1, 2019–December 31, 2019)</th>
<th>Previous fiscal year (January 1, 2018–December 31, 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>210,645</td>
<td>207,251</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>83,369</td>
<td>60,609</td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>(1,885)</td>
<td>(1,578)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>2,840</td>
<td>1,256</td>
</tr>
<tr>
<td>(Gain)/loss on sale and disposal of property, plant and equipment, and intangible assets</td>
<td>3,323</td>
<td>4,531</td>
</tr>
<tr>
<td>(Increase)/decrease in trade and other receivables</td>
<td>12,862</td>
<td>(12,591)</td>
</tr>
<tr>
<td>(Increase)/decrease in inventories</td>
<td>(2,848)</td>
<td>(15,677)</td>
</tr>
<tr>
<td>Increase (decrease) in trade and other payables</td>
<td>696</td>
<td>3,951</td>
</tr>
<tr>
<td>Increase (decrease) in retirement benefit liabilities</td>
<td>(3,768)</td>
<td>20,740</td>
</tr>
<tr>
<td>Other</td>
<td>(2,938)</td>
<td>(21,437)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>300,152</td>
<td>245,026</td>
</tr>
<tr>
<td>Interest received</td>
<td>1,711</td>
<td>1,273</td>
</tr>
<tr>
<td>Dividends received</td>
<td>2,146</td>
<td>2,312</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(2,806)</td>
<td>(1,293)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(56,680)</td>
<td>(51,708)</td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td>244,523</td>
<td>195,610</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments into time deposits</td>
<td>(35,188)</td>
<td>(26,768)</td>
</tr>
<tr>
<td>Proceeds from withdrawal of time deposits</td>
<td>36,660</td>
<td>26,987</td>
</tr>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>(83,959)</td>
<td>(80,295)</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>(9,819)</td>
<td>(7,703)</td>
</tr>
<tr>
<td>Payments for business combinations</td>
<td>(195)</td>
<td>(7,915)</td>
</tr>
<tr>
<td>Other</td>
<td>(1,765)</td>
<td>3,790</td>
</tr>
<tr>
<td><strong>Net cash flows from investing activities</strong></td>
<td>(84,266)</td>
<td>(157,900)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in short-term borrowings</td>
<td>19</td>
<td>230</td>
</tr>
<tr>
<td>Proceeds from long-term borrowings</td>
<td>46,220</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from issuance of bonds</td>
<td>—</td>
<td>(87)</td>
</tr>
<tr>
<td>Redemption of bonds</td>
<td>(12)</td>
<td>(24,093)</td>
</tr>
<tr>
<td>Repayments of lease liabilities</td>
<td>(20,565)</td>
<td>—</td>
</tr>
<tr>
<td>redemption of treasury shares</td>
<td>(50,033)</td>
<td>(50,033)</td>
</tr>
<tr>
<td>Dividends paid to owners of the parent</td>
<td>60,512</td>
<td>(66,938)</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td>(1,287)</td>
<td>(745)</td>
</tr>
<tr>
<td>Other</td>
<td>58</td>
<td>(1,245)</td>
</tr>
<tr>
<td><strong>Net cash flows from financing activities</strong></td>
<td>(126,166)</td>
<td>(108,570)</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents</strong></td>
<td>24,691</td>
<td>70,864</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>265,978</td>
<td>345,074</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>(388)</td>
<td>(6,234)</td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the year</td>
<td>289,681</td>
<td>265,978</td>
</tr>
</tbody>
</table>

---

**Corporate Governance**

- **Chapter 5**
  - 71 Messages from Outside Directors and an Outside Audit & Supervisory Board Member
  - 73 Corporate Governance Initiatives
  - 81 Compliance
  - 83 Directors and Audit & Supervisory Board Members
  - 87 Executive Officers
Messages from Outside Directors and an Outside Audit & Supervisory Board Member

I feel that corporate governance at companies has gone through the concept of organizational design and establishing the scaffolding of frameworks such as the number of Board members and composition of the Board of Directors, and now the emphasis of enhancing corporate governance have shifted to the proper operation of the system. When we delve into how well governance is implemented, you can tell whether the Executive Officers have the intention of effectively using Outside Directors through the Board of Directors or other avenues. In this sense, Kao’s Inside Directors show open-minded attitude to incorporate the opinions of Outside Directors into management, and because of this, we have been able to raise the effectiveness of corporate governance. I hope this remains an integral part of Kao’s culture going forward as well.

I believe that the role of an Outside Director is to ensure that the company is managed properly with integrity. The one word of “Integrity” is difficult to concisely translate into Japanese, but I think “Walking the right path” in the Kao Way captures it well. When the thinking behind execution becomes too focused on the company, the onus is on Outside Directors to bring discussions back to placing highest priority on whether proper management is being attained. This responsibility must not be yielded. I also attend Management Committee meetings and have many opportunities to learn about what is going on at Kao internally, but I do not let that stop me from stating critical opinions at Board of Directors meetings. In addition, as the Chairman of the Board of Directors, I try to create an atmosphere that allows the other Outside Directors to give their frank opinions. That Kao’s Executive Officers listen seriously to these opinions is one of the strengths of Kao’s corporate governance.

At Board of Directors meetings in FY2019, around ten Executive Officers, who usually do not have much interaction with Outside Directors, discussed with us what they are thinking in their day-to-day work on the shared theme of “how to keep Kao shining in the new Reiwa Era” (Reiwa is the name of the new Japanese era with the ascension of the new emperor in May 2019), and we had a lively exchange of ideas. We also had many opportunities to discuss Kao’s long-term direction in terms of ESG, and many opinions were given by Outside Directors in the fruitful discussions. The next mid-term management plan is a major topic of discussion in FY2020, and as part of this, I believe it will be beneficial if we can hold discussions on what Kao aims for and what it should transform as well as deeper discussions on the human capital strategy.

Kao has shifted to ESG-driven management. I believe Kao will continue to effectively practice the “Social” part as it has been doing, and how to incorporate the “Environment” part into daily operations is also being discussed in detail, but the “Governance” that supports this is also essential. Kao has established a robust governance framework, but it is people who actually put it into operation. Internal controls function effectively when people monitor the things in the scope of their responsibility, and will be even more effective when people raise their awareness to also encompass related upstream and downstream areas. From a human capital standpoint as well, bringing in outstanding people and people with different experiences and values will create opportunities to generate completely new ideas from the discussion in day-to-day work. FY2020 is the year to formulate the next mid-term management plan. Together with cross-division coordination, I would like to see Kao create a strong vision for its future goals while engaging in top-down and bottom-up communication.

Sonosuke Kadonaga
Outside Director
Chairman of the Board of Directors

Chiaki Mukai
Outside Director

Hideki Amano
Outside Audit & Supervisory Board Member
Corporate Governance Initiatives

Corporate Governance with the Corporate Philosophy at Its Core

At Kao, we practice corporate governance that places the corporate philosophy, the Kao Way, at its core and with a consistent focus on Innovation, which is one of values of the Kao Way. Putting in place systems for organizational design and the executive team, as well as effectively implementing them, are key to maintaining an effective governance structure. To do this, we revise our system of corporate governance as necessary to address changes in the business and management environment and pursue the most optimum structure for realizing sustainable growth.

We have also taken actions in the past to this end, including changing the number of Directors to activate discussions by the Board of Directors, introducing performance-based compensation for executives to increase awareness for contributing to mid- to long-term business performance improvements and enhanced corporate value, and establishing committees on a voluntary basis. In FY2019, to achieve greater diversity in our Board of Directors and further enhance its supervisory function, we increased Outside Directors by one to make their number equal to the number of inside Directors and appointed a woman as an Outside Director. We will continue to implement corporate governance able to advance corporate management in both offensive and defensive ways.

Basic Approach to Corporate Governance

Our vision by 2030 is to make Kao a company with a global presence. In addition to financial strategies and initiatives including financial results, non-financial strategies and initiatives should be enhanced. It is important that the fruits from those strategies and initiatives are used as investments for sustainable growth. We have announced that we recognize ESG initiatives as use of strategies and improvements, as needed, in an appropriate manner.

We have also practiced Innovation, which is one of values of the Kao Way, in the area of corporate governance from an early stage. We have pursued creation of the most optimal structure to respond to changes in the business environment as well as social demands, and will continue to take steps to reform our governance.

Corporate Governance Reform

We have also practiced Innovation, which is one of values of the Kao Way, in the area of corporate governance from an early stage. We have pursued creation of the most optimal structure to respond to changes in the business environment as well as social demands, and will continue to take steps to reform our governance.
1. **Audit & Supervisory Board Members**
   - Audits the execution of business by Directors and others by attending important meetings, such as meetings of the Board of Directors and the Management Committee, exchanging information with Accounting Auditor and Internal Auditing divisions including the Department of Internal Audit, conducting interviews at internal divisions and affiliates and others.

2. **Board of Directors**
   - Deliberates the management direction including the management strategy from various perspectives including evaluation of risks, and makes decisions relating to the execution of business by Directors.

3. **Committee for the Examination of Nominees for Directors**
   - Comprising all Outside Audit & Supervisory Board Members, examines and deliberates the selection and qualifications of Director nominees, including for President and Chief Executive Officer, and submits its opinions to the Board of Directors.

4. **Internal Control Committee**
   - Examines internal auditing activities at global companies, including from advisory work relating to the introduction of internal controls at global companies, including from advisory work relating to the introduction of internal controls at global companies.

5. **Management Committee**
   - Makes decisions relating to the execution of the mid- to long-term direction and strategies, and exercise of the position of Managing Executive Officer or higher. Acts to speed up decision-making and execution by delegating wide-ranging authority to the Management Committee.

6. **ESG Committee**
   - To gather the support and trust of all stakeholders, discusses and determines the direction of the group’s activities pertaining to the ESG Strategy, aiming to contribute to the sustainable development of the Kao Group as a company with a global presence.

7. **Department of Internal Audit**
   - Department of Internal Audit oversees and determines the direction of the Kao Group’s overall internal control systems to ensure the accuracy of financial reporting and achieve cross-organizational integration of functions pertaining to internal control.

8. **Accounting Auditor**
   - Deloitte Touche Tohmatsu LLC is the audit firm appointed as the Accounting Auditor based on the Companies Act and for accounting audits based on the Financial Instruments and Exchange Act.

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**Corporate Governance Structure**

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**Shareholders Meeting**

1. **Audit & Supervisory Board Members**
2. **Directors**
3. **Committee for the Examination of Nominees for Directors**
4. **Board of Directors**
5. **Accounting Auditor**
6. **Internal Control Committee**
7. **ESG Committee**
8. **Management Committee**
9. **Subsidiaries/ Affiliates**

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**Reasons for Appointment of Outside Directors and Outside Audit & Supervisory Members**

**Mitsuhiko Sawada**
- Has a high level of insight related to international corporate management gained from his considerable experience at foreign-affiliated consulting company, and has served as the Chairman of the Board of Directors as an Independent Outside Director since March 2014, where he has contributed to engaging discussions that transcend the boundaries of inside and outside Directors.
- Subscription: 14/14

**Toshiaki Takeuchi**
- Has a considerable experience and expertise in relation to corporate management and risk management and is able to meet changing needs in the business environment, including involvement for many years in the management of a globally operating airline company where safety and reliability are the top priority, and offers opinions and valuable suggestions on matters material to our group management.
- Subscription: 14/14

**Yoshishiro Hasebe**
- As an attorney and a doctor, she has high level of expertise in the scientific and medical field, and as a member of the Board of Directors, she actively offers opinions and suggestions leveraging her experience and insights as well as her perspective as a woman on matters material to our group management.
- Subscription: 12/12

**Shinobu Hayashi**
- Has an abundance of experience and a high level of insight in global corporate management to address changing needs, including many years of international experience in finance and finance affairs and serving as a management executive while the world of finance was experiencing changes in the management of a globally operating airline company where safety and reliability are the top priority, and offers opinions and valuable suggestions on matters material to our group management.
- Subscription: 12/12

**Osamu Shinobe**
- Has a considerable experience and expertise in relation to corporate management and risk management and is able to meet changing needs in the business environment, including involvement for many years in the management of a globally operating airline company where safety and reliability are the top priority, and offers opinions and valuable suggestions on matters material to our group management.
- Subscription: 14/14

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**Attending Members for Meetings of the Board of Directors, the Audit & Supervisory Board and Other Committees**

- *Denotes attending member.

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**Kao Integrated Report 2020**

---
Board of Directors

<table>
<thead>
<tr>
<th>Topics</th>
<th>Major topics discussed by the Board of Directors in FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First Quarter</td>
</tr>
<tr>
<td></td>
<td>- Evaluation of the effectiveness of the Board of Directors</td>
</tr>
<tr>
<td></td>
<td>- Department of Internal Audit semi-annual reports</td>
</tr>
<tr>
<td></td>
<td>- Audit &amp; Supervisory Board Members’ audit report summaries</td>
</tr>
<tr>
<td></td>
<td>- Overseas IR roadshow reports</td>
</tr>
</tbody>
</table>

The agenda for the mid- to long-term strategy included presentations given by multiple Executive Officers and engaging discussions based on them. In addition to the above, each month we have business execution reports from Directors currently serving as Executive Officers, as well as on matters discussed during the Management Committee from the Executive Officer in charge.

### Effectiveness evaluation process

- Questionnaire to all Directors and all Audit & Supervisory Board Members
- Feedback on the results of the questionnaire
- Discussion and opinion exchange at the Board of Directors
- Identify issues based on the evaluation results
- Ongoing activities to resolve issues

### FY2019 evaluation of Board of Directors’ effectiveness

**Human capital strategy**
Scouting and developing global human capital and diverse human capital have been discussed to a certain extent, achieving a shared understanding of the issues. Going forward, deeper discussion of human capital requirements and development plans based on our vision for the future, including finding and developing young human capital and using human capital from external sources, is necessary.

**Interactive communication between management and execution**
The need to enhance the activity of the Board of Directors and application of Board of Directors’ discussions in execution, based on interactive communication between management and execution, has been pointed out. In addition to the sharing of Board of Directors meeting discussions at Executive Officer meetings and monthly reports by Executive Officers at Board of Directors meetings that have been done up to now, in FY2019 multiple presentations were given by Executive Officers on the mid- to long-term strategy focused on the future, and direct sharing of opinions with Executive Officers created deeper understanding on both sides.

**Internal controls**
For issues where supervision is required, not only for improving systems but also for making ongoing modifications on the operations side, the number of instances and speed with which negative information gets reported up to the Board of Directors have increased, but further improvements are needed in getting reports from operational sites and in facilitating cross-division cooperation. Looking ahead, discussions on the background and core elements of events that have happened are also needed.

**Other**
In the Board of Directors, we have created conditions conducive to Outside Directors participating in core discussions, including by having the Chairman, an Independent Outside Director, provide explanations about the background to the agenda, and free and lively discussions that transcend the boundaries of inside and Outside Directors are taking place.
In addition, visits to workstations within and outside Japan and the like provide Outside Directors with opportunities to obtain information in places apart from Board of Directors meetings. In FY2019, time was set aside for discussions on the ESG Strategy, which resulted in a public declaration of intent. Going forward, while maintaining the valuable aspects of the Board of Directors, we will need to devote more time to discussions on the major direction of the company, including the mid-term plan, the human capital strategy, the global strategy, and the MMA strategy.

### Audit & Supervisory Board

**Effectiveness evaluation process**

- [ ] Create list of focal points by all Audit & Supervisory Board Members
- [ ] Evaluate after referencing the list of focal points and exchanging opinions and holding discussions
- [ ] Create evaluation results and integrate into next fiscal year’s audit plan

### FY2019 evaluation of Audit & Supervisory Board effectiveness

- [ ] Audit & Supervisory Board Members attend Board of Directors meetings, audit the management decision-making process and the establishment and implementation of internal controls, and announce opinions as necessary.
- [ ] Full-time Audit & Supervisory Board Members attend important meetings including Management Committee and Internal Control Committee meetings. In addition, they proactively conduct on-site visits, interviews and conduct surveys of affiliated companies within and outside Japan, with ample opportunities also provided for Outside Audit & Supervisory Board Members to participate. Based on the opinions and comments gained from these activities, opinion exchanges are held with the Representative Directors and Outside Directors of Kao and major subsidiaries, and Audit & Supervisory Board Members provide suggestions as necessary.
- [ ] Audit & Supervisory Board Members engage in frank exchanges of opinions based on their respective experience and specialization, and the Audit & Supervisory Board functions effectively overall.
- [ ] Opportunities are also provided at Board of Directors meetings to comment on the activities of the Audit & Supervisory Board.

### Issues

- Take the following steps to respond flexibly and appropriately to changes in the business environment and to business expansion.
- Make proactive suggestions to ensure effectiveness and efficiency in terms of both the maintenance and operation of internal controls globally.
- Enhance framework to achieve more effective functionality for Audit & Supervisory Board Members of subsidiaries.
- Continue to consider how to proceed with audits.

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

The compensation system for Directors, Audit & Supervisory Board Members and Executive Officers is aimed at (1) securing and retaining diverse and excellent talent to establish and improve competitive advantages; (2) promoting prioritized measures for continuous enhancement in corporate value; and (3) sharing interests in common with shareholders. Starting in FY2017, we have introduced a performance-based share incentive plan for our Directors (excluding Outside Directors) and Executive Officers. Serving as a highly transparent and objective remuneration system that is closely linked to company performance, the performance-based share incentive plan aims to increase awareness of contributing to improvements in our financial performance and corporate value over the mid- to long-term.

The compensation system and compensation standards for Directors and Executive Officers are examined by the Compensation Advisory Committee and determined by the Board of Directors. Compensation for Independent Outside Directors consists solely of a fixed monthly salary. Compensation for Audit & Supervisory Board Members also consists solely of a fixed monthly salary, and compensation standards are determined at meetings of the Audit & Supervisory Board. Compensation standards for Directors, Audit & Supervisory Board Members and Executive Officers are determined each year after ascertaining standards at other major manufacturers of similar size, industry category, and business type as Kao using officer compensation survey data from an external survey organization. We do not have a system for providing retirement benefits to Directors or Audit & Supervisory Board Members.
Summary of Compensation System for Directors, Audit & Supervisory Board Members and Executive Officers

### FY2019 Remuneration for Individual Directors

<table>
<thead>
<tr>
<th>Name (Director classification)</th>
<th>Aggregate amount of remuneration (Millions of yen)</th>
<th>Amount of remuneration by type (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Base salary</td>
<td>Bonus</td>
</tr>
<tr>
<td>Mikihaiko Sawada (Director)</td>
<td>133</td>
<td>82</td>
</tr>
</tbody>
</table>

Note: Only Director remuneration amounts totaling over 100 million yen are listed.

### Activities to enhance monitoring by Directors and Audit & Supervisory Board Members

**Japan**

In September 2019, they toured Toyohashi Plant that uses state-of-the-art robotic technology. They also exchanged opinions about the future supply chain.

**China**

In July 2019, they toured the Chinese market as well as our offices and plants in China, and exchanged opinions with local staff to deepen understanding for the business strategy.

**Indonesia**

In September 2019, they visited chemicals subsidiary’s offices and plants in Indonesia, and exchanged opinions with local employees.

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### Base salary | Short-term incentive compensation | Long-term incentive compensation

<table>
<thead>
<tr>
<th>Method of provision</th>
<th>Amount determined in accordance with role and rank, and provided as fixed monthly compensation.</th>
<th>Amount of bonus determined in accordance with degree of achievement of single fiscal-year targets and provided.</th>
<th>Performance-based share incentive determined within the range of 0–200% in accordance with the degree of achievement of each indicator.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Method of provision</td>
<td>One year</td>
<td>Four years (FY2017–2020)</td>
<td></td>
</tr>
<tr>
<td>Calculation criteria</td>
<td>EVA®</td>
<td>Consolidated net sales/Gross Profit Less Selling and General and Administrative Expenses</td>
<td>Like-for-like net sales CAGR (Compound annual growth rate)</td>
</tr>
<tr>
<td>Calculation criteria</td>
<td>Degree of target achievement</td>
<td>Degree of target achievement</td>
<td>The yearly share remuneration amount when the performance-based coefficient is 100%</td>
</tr>
<tr>
<td>Calculation criteria</td>
<td>The payout ratio is determined within the range of 0–200% in accordance with the degree of achievement of each indicator.</td>
<td>Degree of target achievement</td>
<td>About 40% to 50% of the base salary of the position</td>
</tr>
</tbody>
</table>

### Compensation paid to Directors and Audit & Supervisory Board Members in FY2019

<table>
<thead>
<tr>
<th>Classification</th>
<th>Number of persons (Persons)</th>
<th>Aggregate amount of remuneration (Millions of yen)</th>
<th>Amount of remuneration by type (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (of Outside Directors)</td>
<td>10 (5)</td>
<td>404 (71)</td>
<td>264 (71)</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board Members (of Outside Audit &amp; Supervisory Board Members)</td>
<td>6 (3)</td>
<td>78 (30)</td>
<td>78 (30)</td>
</tr>
<tr>
<td>Total of Outside Directors and Audit &amp; Supervisory Board Members</td>
<td>16 (8)</td>
<td>482 (101)</td>
<td>342 (101)</td>
</tr>
</tbody>
</table>

Note: The above numbers of Directors/Audit & Supervisory Board Members include one Director, one Outside Director and one Audit & Supervisory Board Member who resigned at the conclusion of the 113th Annual General Meeting of Shareholders held on March 26, 2019.
Initiatives to Enhance Compliance

Kao regards Integrity, the value inherited from its founder, as the founding of management, we are focusing on developing human capital with high ethical standards by conducting ongoing initiatives to enhance compliance. Through these activities, we aim to create workplaces that are easy to work in and where human capital is fully utilized, and make the necessary improvements for a sound corporate culture.

Kao Business Conduct Guidelines (BCG)

Please see Kao’s corporate website for more information about the Kao Business Conduct Guidelines (BCG).

Basic Philosophy

Compliance

Compliance

Philosophy/regulations Organization and hotline

WEB

1998

2000–2

2000

2000

Corporate Ethics Committee

Establishment/revision of Guidelines Concerning Business Entertainment, Business Gifts and Monetary Offerings for Celebrations or Condolences

Establishment/revision of Guidelines for Offering Benefits to Government Officials

Establishment of Compliance Hotline

Acceptance of anonymous report

Distribution of Integrity Cards (Cards with compliance hotline information) (Since 2003 in Japan and 2009 in Europe, the Americas and Asia)

Stratified trainings (for new employees, mid-career hire employees and managers in Japan)

Promote specific activities based on the activities policy and annual plan.

Establish and review rules and regulations.

Provide a variety of training opportunities.

Respond appropriately to hotline reports.

The Compliance Committee creates and implements the activities policy and annual activities plan taking into consideration the issues and expectations from society. It identifies further issues based on internal and external evaluations and connects them to improvement activities.

PDCA Cycle to Continuously Improve Compliance

PDCA promotion structure

Compliance Committee

Compliance Committee Secretariat

Plan

Activities plan taking into consideration the issues and expectation from society.

Action

Identify the issues and conduct improvement activities.

Check

Identify issues and make necessary improvements.

Do

Persons responsible for divisions

Subsidiary presidents

Persons responsible for Compliance Promotion

Employees (Japan/Outside Japan)

PDCA cycle

Plan

Do

Check

Action

Employees (Japan/Outside Japan), third parties of suppliers, etc.

Kao has created various systems to find improprieties at an early stage. We have set up hotlines in all countries and regions, promptly conduct investigations and take corrective measures striving to resolve any issues.

Reports are made quarterly to the Management Committee and the Audit & Supervisory Board Members on trends in compliance incidents including cases reported to the hotlines, the content of serious incidents, the response to these and other matters, in addition to which a Management Committee summary report of these matters and an annual activities report are also made to the Board of Directors. We are strengthening compliance while checking the appropriateness of the response to hotline reports, sharing issues and discussing countermeasures through the above mentioned reports.

Response Process for Compliance Hotline Reports

Compliance Committee

Compliance Committee Secretariat

[ ] Identify issues and make necessary improvements.

[ ] Activities plan taking into consideration the issues and expectation from society.

[ ] Persons responsible for divisions

[ ] Subsidiary presidents

[ ] Persons responsible for Compliance Promotion

[ ] Employees (Japan/Outside Japan)

Internal hotline system

Japan

Kao Compliance Hotline (internal)

Kao lawyers’ hotline (external third party)

Kao: Consultation Room (external third party)

Outside Japan

Integrity Line (internal/external)

Employees (Japan/Outside Japan)

Employees (Japan/Outside Japan), third parties of suppliers, etc.

Fourteen consecutive years on one of the World’s Most Ethical Companies® 2020 list

We regard being selected as one of the World’s Most Ethical Companies® as an important indicator for the achievement of compliance activities. This award is one of the elements of the evaluation of Executive Officer compensation.

Activities throughout the Kao Group within and outside Japan, unless the region is noted.
Directors and Audit & Supervisory Board Members
(As of March 31, 2020)

Takahiro Nakazawa
Outside Audit & Supervisory Board Member

Hideko Aoki
Full-time Audit & Supervisory Board Member

Yoshihiro Hasebe
Representative Director, Senior Managing Executive Officer

Tomoharu Matsuda
Director, Managing Executive Officer

Katsuya Fujii
Full-time Audit & Supervisory Board Member

Nobuhiro Oka
Outside Audit & Supervisory Board Member

Nobuhide Hayashi
Outside Director

Sonosuke Kadonaga
Outside Director, Chairman of the Board of Directors

Michitaka Sawada
Representative Director, President and Chief Executive Officer

Toshiaki Takeuchi
Representative Director, Senior Managing Executive Officer

Osamu Shinobe
Outside Director

Chiaki Mukai
Outside Director
Directors and Audit & Supervisory Board Members

(As of March 25, 2020)

Directors

Michitaka Sawada

Representative Director, President and Chief Executive Officer

Apr. 1981 Joined Kao Corporation

Jul. 2003 Vice President, Sanitary Products Research Laboratories

Jun. 2005 Vice President, Global Research & Development, Executive Officer

Apr. 2007 Vice President, Global Research & Development, Human Health Care Business Unit

Jun. 2009 Director, Executive Officer

Jun. 2012 Representative Director, President and Chief Executive Officer

Jan. 2014 Responsible for Product Quality Management

Jan. 2016 Responsible for Corporate Strategy

Jan. 2019 Responsible for Human Capital Development

Toshiaki Takeuchi

Representative Director, Senior Managing Executive Officer

Apr. 1981 Joined Kao Corporation

May 2006 Vice President, Key Account, Kao Customer Marketing Co., Ltd.

Mar. 2009 Vice President, Corporate Functions, Kao Customer Marketing Co., Ltd.

Mar. 2010 Director, Executive Officer, Kao Customer Marketing Co., Ltd.

May 2011 Director, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd.

Mar. 2012 Representative Director, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd.

Jun. 2012 Executive Officer

Apr. 2013 Representative Director, Executive Vice President, Kao Customer Marketing Co., Ltd.

Mar. 2014 Representative Director, President, Kao Customer Marketing Co., Ltd.

Representative Director, Managing Executive Officer

Osamu Shinobue

Outside Director

Apr. 1976 Joined ALL NIPPON AIRWAYS CO., LTD.

Jun. 2007 Member of the Board, ALL NIPPON AIRWAYS CO., LTD.

Apr. 2009 Executive Vice President (jinya horisho-kan), ALL NIPPON AIRWAYS CO., LTD.

Jun. 2011 Executive Vice President (jinya horisho-kan), ALL NIPPON AIRWAYS CO., LTD.

Apr. 2012 Senior Executive Vice President, ALL NIPPON AIRWAYS CO., LTD.

Apr. 2013 Member of the Board, ANA HOLDINGS INC., President and Chief Executive Officer, ALL NIPPON AIRWAYS CO., LTD.

Apr. 2017 Member of the Board, Vice Chairman, ANA HOLDINGS INC.

May 2018 Director, Kao Corporation

Apr. 2019 Special Advisor, ANA HOLDINGS INC.

Other material position(s)

Special Advisor, ANA HOLDINGS INC.

Hideko Aoki

Outside Director

Apr. 1982 Joined Kao Corporation

Apr. 2007 Vice President, Product Quality Management Division

Jun. 2010 Executive Officer

Jun. 2019 Responsible for Special Missions

Hideki Amano

Outside Director

Apr. 1976 Joined Anritsu Manufacturing Co., Ltd.

Sep. 1980 Registered as Certified Public Accountant

Jun. 1984 Resigned in Oursell Office of Anri Amano

Sep. 1982 Representative employees, Inoue Shuichi Audit Corporation

Sep. 2011 Vice President (Audit Management), KPMG AZA LLC, member, KPMG Global Audit Steering Group

Jul. 2015 Executive Senior Partner, KPMG AZA LLC

Mar. 2017 Audit & Supervisory Board Member, Kao Corporation (current)

Other material position(s)

Certified Public Accountant

Outside Director, TOPWIN SYSTEMS CO., LTD.

Outside Audit & Supervisory Board Member, Aonectors Co., Inc.

Outside Audit & Supervisory Board Member, Seiko Holdings Corporation

Takao Nakazawa

Outside Director

Oct. 1981 Joined Procter & Gamble

Jun. 1983 Joined Anri Amano Audit Corporation

Mar. 1985 Registered as Certified Public Accountant

Jul. 2001 Representative Partner, Anri Amano Audit Corporation

Sep. 2006 Registered as Certified Public Accountant

Jul. 2015 Outside Director, Mizuho Securities Co., Ltd.

Mar. 2020 Audit & Supervisory Board Member, Kao Corporation (current)

Other material position(s)

Certified Public Accountant

Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation

Executive Officers (As of March 25, 2020)

Michitaka Sawada  
President and Chief Executive Officer

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

Yasushi Wada  
Managing Executive Officer  
Senior Vice President, Product Quality Management, Global  
Representative Director, Chairman of the Board, Kanebo Cosmetics Inc.

Osamu Tabata  
Managing Executive Officer  
Senior Vice President, Supply Chain Management, Global  
Responsible for TCO Promotion

Yoshihiro Hasebe  
Senior Managing Executive Officer  
Responsible for Kao Professional Services Co., Ltd.

Tomoharu Matsuda  
Managing Executive Officer  
President, Consumer Products, Global  
Responsible for Skin Care and Hair Care Business;  
Responsible for Human Health Care Business;  
Responsible for Fabric and Home Care Business;  
Responsible for Kao Professional Services Co., Ltd.

Shigeru Ueyama  
Managing Executive Officer  
Senior Vice President, Corporate Strategy, Global

Masakazu Negoro  
Managing Executive Officer  
Senior Vice President, Procurement, Global

Yoichi Harada  
Executive Officer  
Senior Vice President, Enterprise Information Solutions, Global  
Vice President, Strategic Innovative Technology, Global

Hideaki Kubo  
Executive Officer  
Vice President, Research and Development, Global  
Responsible for Research and Development – Core Technology

Satoru Tanaka  
Executive Officer  
President, Consumer Products, America and EMEA  
Chairman of the Board, Kao USA Inc.;  
Chairman of the Board, Orbit Hair Care, LLC

Takashi Ichihara  
Executive Officer  
Responsible for Research and Development – Consumer Products – New Business  
Manufacturing Plant Center, Global

Akihiko Ito  
Executive Officer  
Vice President, Research and Development – Environmental New Business  
Vice President, Research and Development – Performance Chemicals Research, Global  
Research Director, Institute for Research and Development – Environmental/New Business

Kenichi Yamauchi  
Executive Officer  
Senior Vice President, Accounting and Finance, Global  
President, Kao Americas Inc.

Kotaro Nuriya  
Executive Officer  
President, Consumer Products Technology  
Responsible for Research and Development – Household Products Research, Global  
Research Director, Institute for Research and Development – Consumer Products Technology

Hideki Nitta  
Executive Officer  
Senior Vice President, Human Capital Development, Global  
President, Kao Group Corporate Pension Fund  
Chairman of the Board, Kao America Inc.

Masahiro Katayose  
Executive Officer  
President, Chemical Business, Global  
Chairman of the Board, Kao Chemicals Europe S.A.;  
Chairman of the Board, Phineas Kas Inc.;  
President, Kao Chemicals Europe, S.L.

Hiroaki Taki  
Executive Officer  
Senior Vice President, Consumer Products – Marketing Emergence, Global

David J. Muenz  
Executive Officer  
Senior Vice President, ESG, Global

Hiroki Yamaguchi  
Executive Officer  
Vice President, Supply Chain Management – Manufacturing Plant Center, Global

Akio Matsui  
Executive Officer  
Senior Vice President, Human Capital Development, Global  
Chairman of the Board, Pilipinas Kao, Inc.;  
Chairman of the Board, Fatty Chemical (Malaysia) Sdn. Bhd.;  
Chairman of the Board, Kao (Hefei) Corporation Shanghai;  
President, Kao (China) Holding Co., Ltd.;  
Chairman of the Board and President, Kao [Hebei] Co., Ltd.

Atsushi Koizumi  
Executive Officer  
Senior Vice President, Consumer Products – Business Planning and Management, Global

Toru Nishiguchi  
Executive Officer  
President, Consumer Products, Asia  
Chairman of the Board and President, Kao [China] Holding Co., Ltd.;  
Chairman of the Board and President, Kao Corporation Shanghai;  
Chairman of the Board, Kao Commercial (Shanghai) Co., Ltd.;  
Chairman of the Board and President, Kao [Hebei] Co., Ltd.

Masaru Takeyasu  
Executive Officer  
Senior Vice President, Legal and Compliance, Global

Hiroaki Yamaguchi  
Executive Officer  
Vice President, Consumer Products – Business Planning and Management, Global

Motomitsu Hasumi  
Executive Officer  
Vice President, Research and Development – Household Products Research, Global  
Responsible for Research and Development – Consumer Products Technology

Kazumi Atomi  
Executive Officer  
Senior Vice President, Environmental New Business  
Senior Vice President, Demand and Supply Planning Center, Global

Yasuo Yabuki  
Executive Officer  
President, Consumer Products Technology  
Responsible for Research and Development – Consumer Products Technology  
Business Challenging Projects

Hiroaki Tsukiyama  
Executive Officer  
Senior Vice President, Compliance, Global  
Vice President, Strategic Innovative Technology, Global  
Senior Vice President, Research and Development, Global  
Senior Vice President, Corporate Communications, Global  
Senior Vice President, Strategic Innovative Technology, Global  
Senior Vice President, Research and Development, Global  
Senior Vice President, Corporate Communications, Global  
Senior Vice President, Strategic Innovative Technology, Global

Akemi Ishiwata  
Executive Officer  
Managing Executive Officer  
Yoshihiro Murakami  
Senior Vice President, Corporate Communications, Global

Executive Officers
Dialogue with Stakeholders

We actively strive to create opportunities for dialogue with all stakeholders, and we attach great importance to building a long-term relationship of trust by responding with integrity to stakeholders’ diverse hopes and expectations, and by deepening mutual understanding.

In FY2019, we engaged in the following types of dialogue.

We strive to provide appropriate, timely product and lifestyle information through in-depth communication with consumers. As we see it, this approach is closely linked to demonstrating concern for society and for the environment, and to helping to realize safe consumer behavior. We have put in place a framework for rapid response whereby the consumer communication desk at Consumer Communication Center receives consumers’ opinions and ideas and then shares them promptly within the company. In this way, consumer feedback helps to drive Yoki-Monozukuri and service enhancement throughout the company. Information is also disseminated through our website and through the holding of lectures and other special events. In the future, we will continue to strive to implement effective dialogue with consumers, aiming to provide even better products and services, and we will promote activities aimed at further enhancing consumers satisfaction and ensuring that Kao plays a useful role in society.

In FY2019, we received a total of 214,000 telephone and e-mail inquiries in Japan.

Besides striving to engage in fair, equitable transactions with business partners, we also seek to build and maintain a healthy relationship conducive to mutual development, which in turn helps to enhance the fundamentals of our business operations.

**Suppliers**

Every year, we hold the Kao Vendor Summit to provide a venue for disseminating our procurement policy and for engaging in dialogue with suppliers.

In FY2019, a total of 239 Japanese suppliers and 267 overseas suppliers (in 5 different countries outside Japan) attended the Vendor Summit. In addition, we conduct a supplier satisfaction survey every three years to verify whether Kao itself is implementing procurement activities in a fair and equitable manner. On the basis of the opinions expressed by suppliers, we discuss possible methods for improvement; in this way, feedback from suppliers helps us to upgrade our operations.

Retailers

We invited retailers to attend Kao Collaboration Fair, at which we share our approach to Monozukuri manufacturing through actual products and booth displays, as well as offering solutions for retail outlet strategies that take changing consumer behavior into account. Value transmission that links every stage from R&D to sales is an area where Kao is particularly strong; by fostering direct dialogue with retailers, the Kao Collaboration Fair constitute an important venue for getting together to think about consumer-oriented solutions. In the future, we aim to make effective use of a wide range of opportunities for dialogue to realize a win-win outcome in collaboration with retailers.

**Suppliers**

We believe that building a corporate culture in which the views and challenges of diverse employees are reflected in management strategy, and building a healthy relationship with employees in which every individual employee feels that they can make their voice heard easily, with a heightened enthusiasm for participating in management, is one of the most important initiatives that can be taken to support the company’s growth. To this end, we attach great importance to dialogue between senior management and employees. We hold round-table events at which senior managers discuss directly with employees from different countries; by personally engaged in dialogue with front-line employees, senior managers are able to ensure that insights from the front-line are reflected in management strategy.

In Japan, the Kao Forum—which provides a venue for dialogue between managers and employees—is held on a regular basis. We also engage in dialogue at individual Kao Group companies, production sites and branch offices. The content of the discussions, which represents the voice of front-line employees, is reflected in management strategy.

In FY2019, we held the Kao Vendor Summit, Kao Collaboration Fair, Kao Consumer Communication Center, and engaged in dialogue at Kao Group companies, production sites and branch offices.

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Dialogue with Stakeholders

In order to realize sustainable growth and enhance corporate value over the mid- to long-term, besides holding shareholders meetings, we also hold presentations for investors and create opportunities for one-on-one dialogue, with the aim of expanding dialogue with shareholders and investors. We also strive to realize disclosure of information that is timely, appropriate, transparent and fair.

We provide feedback on the opinions and expectations expressed in dialogue with shareholders and investors to Directors, Audit & Supervisory Board Members and also Executive Officers; and build consensus regarding the issues that need to be addressed. By doing so, we are able to realize constructive dialogue based on a mid- to long-term perspective.

Major Investor Relations Activities

**Dialogue with Institutional Investors, Analysts and Individual Shareholders**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Number of Meetings</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presentations for institutional investors and analysts</td>
<td>2018: 10, 2019: 14</td>
<td>Financial results conferences, business briefings, visits to facilities, etc.</td>
</tr>
<tr>
<td>Dialogue with institutional investors and analysts</td>
<td>2018: 257, 2019: 314</td>
<td>IR meetings and telephone conferences</td>
</tr>
<tr>
<td>Visits to institutional investors in Japan</td>
<td>2018: 16, 2019: 7</td>
<td>Visits to shareholders/investors in Japan—A total of 32 firms in FY2019</td>
</tr>
<tr>
<td>Visits to outside Japan institutional investors</td>
<td>2018: 84, 2019: 48</td>
<td>Visits to overseas shareholders/investors outside Japan—A total of 123 firms in FY2019 in North America, Europe and Asia</td>
</tr>
<tr>
<td>Conferences organized by securities firms</td>
<td>2018: 55, 2019: 40</td>
<td>Participation in conferences organized by securities firms, and holding of meetings</td>
</tr>
<tr>
<td>Presentations for individual shareholders</td>
<td>2018: 14, 2019: 12</td>
<td>Presentations and visits to facilities for individual shareholders</td>
</tr>
</tbody>
</table>

Feedback on Views and Expectations Obtained through IR Activity

**Activity Reports for the Board of Directors/ Executive Officers Meeting:** 7 times

The information obtained through dialogue is shared in an appropriate and timely manner, and effective use is made of this information to enhance the company’s management so as to enhance corporate value.

**External Evaluation (As of March 25, 2020)**

**Inclusion in SRI Indices (Socially Responsible Investment)**

Companies highly evaluated not only in financial terms but also in terms of environmental, social and governance, are recognized as companies with potential for long-term sustainable growth, and receive attention from a wide range of investors. Kao has been included in the following leading indexes in recognition of having this credibility globally.

- **Dow Jones Sustainability Indices** in Collaboration with RobecoSAM
  - FTSE4Good
  - FTSEBlossom Japan
- **MSCI**
  - MSCI Japan ESG Leaders Index
  - MSCI Japan ESG Select Leaders’ Index

The FTSE4Good Index series: www.ftse.com/products/indices/FTSE4Good

**Evaluations from External Organizations**

- The highest award in the Cosmetics and Personal Care Industry
- The 2019 Award for Excellence in Corporate Disclosure (from the Securities Analysts Association of Japan)
- Best IR Award (from the Japan Investor Relations Association)
- Best IR Award (from the Japan Investor Relations Association)
## Corporate Information

### Corporate Overview

**Company:** Kao Corporation  
**Head Office:** 14-10, Nihonbashii Kayabacho 1-chome, Chuo-ku, Tokyo 103-8210, Japan  
**Founded:** June 19, 1887  
**Incorporated:** May 21, 1940

### Stock Information

**Ticker Symbol Number:** 4452  
**Total Number of Authorized Shares:** 1,000,000,000 shares  
**Total Number of Issued Shares:** 482,000,000 shares  
**Number of Shareholders:** 55,234  
**Number of Shareholders:** 55,234  
**Administrator of Shareholder Register:** Suntombo Mitsui Trust Bank, Limited  
**Number of Employee Shareholders:** 37

### Status of Top 10 Shareholders

<table>
<thead>
<tr>
<th>Name of Shareholder</th>
<th>Number of Shares (thousand shares)</th>
<th>Shareholding (% of issued shares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>48,067</td>
<td>9.98</td>
</tr>
<tr>
<td>Nippon Life Insurance Company</td>
<td>6,691</td>
<td>1.39</td>
</tr>
<tr>
<td>State Street Bank and Trust Company (Trust Account 5)</td>
<td>11,913</td>
<td>2.32</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account 1)</td>
<td>9,713</td>
<td>2.02</td>
</tr>
<tr>
<td>JP Morgan Chase Bank</td>
<td>9,407</td>
<td>1.75</td>
</tr>
<tr>
<td>SSBCI Client Omnibus Account</td>
<td>6,898</td>
<td>1.43</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account 7)</td>
<td>8,407</td>
<td>1.75</td>
</tr>
<tr>
<td>The Bank of New York Mellon</td>
<td>6,613</td>
<td>1.37</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Share Price Range (Yen)</th>
<th>Tokyo Price Index Close</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>10,000 - 8,000</td>
<td>8,700</td>
</tr>
<tr>
<td>2014</td>
<td>8,900 - 7,800</td>
<td>8,650</td>
</tr>
<tr>
<td>2015</td>
<td>8,100 - 7,000</td>
<td>8,500</td>
</tr>
<tr>
<td>2016</td>
<td>7,300 - 6,200</td>
<td>8,350</td>
</tr>
<tr>
<td>2017</td>
<td>6,500 - 5,400</td>
<td>8,200</td>
</tr>
<tr>
<td>2018</td>
<td>5,600 - 4,500</td>
<td>8,050</td>
</tr>
<tr>
<td>2019</td>
<td>4,700 - 3,600</td>
<td>7,900</td>
</tr>
</tbody>
</table>

### Monthly Trading Volume (Million shares)

<table>
<thead>
<tr>
<th>Date</th>
<th>Monthly Trading Volume (Million shares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>60</td>
</tr>
<tr>
<td>2014</td>
<td>55</td>
</tr>
<tr>
<td>2015</td>
<td>50</td>
</tr>
<tr>
<td>2016</td>
<td>45</td>
</tr>
<tr>
<td>2017</td>
<td>40</td>
</tr>
<tr>
<td>2018</td>
<td>35</td>
</tr>
<tr>
<td>2019</td>
<td>30</td>
</tr>
</tbody>
</table>

## From the Editor

This report summarizes financial and non-financial information, including information on business activities and strategy, business performance and the corporate governance structure, from a wide-ranging perspective, with the aim of communicating our vision for sustainable growth to a wide range of stakeholders including shareholders and investors.

The Kao Integrated Report—which this year is being published for the fourth time—embodies Kao’s approach of seeking to contribute to the sustainability of the world, building on the values expressed in the Kao Way, the corporate philosophy that has been handed down ever since the company was first established. Besides presenting the specifics of how Kao implements ESG through its business activities, the report also aims to explain our mid-term business strategy and the direction being taken to realize sustainable growth, in an easy-to-understand format.

By positioning the Kao Integrated Report as a tool for dialogue with stakeholders, we hope that it will assist in the sustainable enhancement of corporate value. In the future, we will strive to further enhance the report, and to release information in ways that are easy to understand to further deepen understanding of our business.

In drawing up this report, reference was made to the Guidance for Collaborative Value Creation published by Japan’s Ministry of Economy, Trade and Industry (METI).

Junya Kumazawa  
Corporate Business Planning and Coordination, Corporate Strategy

Disclaimer on Forward-looking Statements  
Forward-looking statements such as earnings forecasts and other projections contained in this report are based on information available at the time of publication, and on assumptions that management believes to be reasonable. These statements are not guarantees that Kao will achieve its targets. Actual results may differ materially from Kao’s expectations due to various factors.

Scope of This Report  
In principle, this report covers the activities of the Kao Group (Kao Corporation and its subsidiaries and affiliates). However, environmental and social data covers only Kao Corporation and its subsidiaries. In the event that the data does not apply to the Kao Group, the scope of such data is specified accordingly. Kao refers to the Kao Group within this report. In cases where it is necessary to specify the scope of reporting, this report lists the applicable institution individually.

Reporting Period  
FY2019 (January 1, 2019–December 31, 2019). However, certain sections of this report include information on activities from periods prior to FY2018 as well as on expected activities from FY2020 and onward. Also, this report covers periods outside of the reporting period in cases where it is appropriate to provide past details and data or recent examples.

Cover Explanation  
The scene shown on the cover of the Report embodies Kao’s vision of a “Kirei” future. The bubble-like objects represent the combination of Kao’s vision of a sustainable future in which Kao provides support for people’s lives while responding to constant change, and technology.