Chapter 1

What Kao Aims for

To Kao Group Stakeholders
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\(^1\) 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

\(^1\) The Japanese word “kirei” describes something that is clean, well-ordered and beautiful, all at the same time. For Kao, this concept of Kirei not only describes appearance, but also attitude—to seek to create beauty for oneself, and also for other people and for the natural world around us.

\(^2\) The Kao Group defines Yoki-Monozukuri as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, Yoki literally means “good/excellent,” and Monozukuri means “development/manufacturing of products.”
CEO Interview

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

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.

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’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.
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.

Key to this is connecting 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.

Q3 What kind of company does Kao aim to be by 2030?

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.

Mid-term Plan
K20*1

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%*2
  • Operating margin of 15%
  • Three 100 billion yen brands (Merries baby diapers, Attack laundry detergents, Bioré skin care products)

Commitment to returns to stakeholders
• Shareholders: Continuous cash dividend increases (40% payout ratio target)
• Employees: Continuous improvement in compensation, benefits and health support
• Customers: Maximization of win-win relationships
• Society: Advanced measures to address social issues

Progress over FY2019

FY2019 Results

<table>
<thead>
<tr>
<th>Numerical Targets</th>
<th>Results</th>
<th>Achievement ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales 1.4 trillion yen</td>
<td>1.47 trillion yen</td>
<td>105%</td>
</tr>
<tr>
<td>Operating income 150.0 billion yen</td>
<td>164.4 billion yen</td>
<td>110%</td>
</tr>
<tr>
<td>Sales ratio outside Japan Over 30%</td>
<td>35%</td>
<td>Achieved</td>
</tr>
</tbody>
</table>

Formulated detailed strategies and steadily achieved results
**What Kao Aims to Be**

*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>
<thead>
<tr>
<th>Numerical Targets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>2.5 trillion yen (1.0 trillion yen outside Japan)</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>17%</td>
</tr>
<tr>
<td>ROE*3</td>
<td>20%</td>
</tr>
</tbody>
</table>

> aim to exceed these targets

**ESG Strategy**

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

---

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

*2 Like-for-like growth excludes the effects of currency translation.

*3 Ratio of net income to equity attributable to owners of the parent.
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.
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.”

**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.
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.

Japan’s bubble economy bursts
Asian currency crisis
Dot-com bubble bursts

1990
1995
2000
2005

Global financial crisis

Kao’s History

Japan’s bubble economy bursts
Asian currency crisis
Dot-com bubble bursts

1990
1995
2000
2005

Global financial crisis

History Up to Today

1890
Kao founder Tomiro Nagase, determined to offer an affordable Japanese-made soap with the quality to compete with imported products, launches Kao Sekken.

The Kao Way
Corporate philosophy from our founding

1987
Concentrated laundry detergent
Reduced box size by 80%
Reduced weight by 62%

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

1987
High Point Chemical Corporation joins the Kao Group

It begins production for de-inking agents for recycling paper and toner binders in 1991, enhancing the Chemical Business in North America.

1988
U.S.-based Andrew Jergens Company joins the Kao Group
The Consumer Products Business enhances global business development, primarily in North America.

1989
Goldwell AG joins the Kao Group

Goldwell, manufacturer of professional hair care products, joins the Kao Group. Kao develops the business for hair salons globally using the business foundation built by Goldwell.

1993
Establishment of Kao Corporation Shanghai

In 1994, hair care products are launched to start the Consumer Products Business in China.

1996
Establishment of Kao Vietnam

Kao Vietnam is established. Kao Vietnam engages in manufacturing and sales of consumer products including hair care and skin care products and chemical products.

1999
Withdrawal from the information technology business

Sales expand to a scale of more than 80 trillion yen since entering the floppy disk business in 1985, but a collapse in product prices causes profitability to decline. In April 1998, Kao announces a full withdrawal from the business.

1999
EVA® introduction*

Kao becomes 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.

*1 EVA® is a registered trademark of Stern Stewart & Co.
Dot-com bubble bursts in 1999.


American entries and the possibility of massive expansion.

Kao’s Monozukuri Strategy

Kao’s Corporate Strategy

Performance in FY2019

Corporate Governance

What Kao Aims for

1990

1993

1999

2009

2019

FY2019 net sales
1,502.2 billion yen

FY2019 operating income
211.7 billion yen

FY2019 stock price
9,025 yen

Sales ratio outside Japan
1990 15.9% 1999 37.0%

Market capitalization
1990 711.3 billion yen 2019 4,350.1 billion yen

*2 Closing price on December 30, 2019
*3 Based on customer locations

Fiscal year

Sales ratio outside Japan
1990 15.9% 1999 37.0%

Market capitalization
1990 711.3 billion yen 2019 4,350.1 billion yen

*2 Closing price on December 30, 2019
*3 Based on customer locations

FY2019 operating income
211.7 billion yen

FY2019 net sales
1,502.2 billion yen

The Kao Environmental Statement and new CI announced in 2009.

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 defines the new corporate identity (CI) of “Enriching lives, in harmony with nature.”

Kao’s Corporate Strategy

Performance in FY2019

Corporate Governance

What Kao Aims for

1990

1993

1999

2009

2019

FY2019 net sales
1,502.2 billion yen

FY2019 operating income
211.7 billion yen

FY2019 stock price
9,025 yen

Sales ratio outside Japan
1990 15.9% 1999 37.0%

Market capitalization
1990 711.3 billion yen 2019 4,350.1 billion yen

*2 Closing price on December 30, 2019
*3 Based on customer locations

Fiscal year

Sales ratio outside Japan
1990 15.9% 1999 37.0%

Market capitalization
1990 711.3 billion yen 2019 4,350.1 billion yen

*2 Closing price on December 30, 2019
*3 Based on customer locations

FY2019 operating income
211.7 billion yen

FY2019 net sales
1,502.2 billion yen

The Kao Environmental Statement and new CI announced in 2009.

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 defines the new corporate identity (CI) of “Enriching lives, in harmony with nature.”

2002

2005

2006

2009

2019

2018

John Frieda Professional Hair Care, Inc. 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.

Molton Brown Limited joins the Kao Group.

U.K. luxury brand Molton Brown, which offers plant-based skin care, hair care and body care products, joins the Kao Group. This move is designed to further develop the Cosmetics Business in Europe and North America.

Kanebo Cosmetics Inc. joins the Kao Group.

The strengths of both Kao and Kanebo Cosmetics are utilized to reinforce Cosmetics Business’s development within and outside Japan.

The Kao Environmental Statement and new CI announced.

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 defines the new corporate identity (CI) of “Enriching lives, in harmony with nature.”

Oribe Hair Care, LLC joins the Kao Group.

Oribe, a super-premium brand for U.S. hair salons, joins the Kao Group. This is designed to create synergies with Kao and further global growth for the hair care business.

ESG Strategy “Kirei Lifestyle Plan” announced.

In April, Kao announces that it is introducing ESG (Environmental, Social and Governance) perspectives into our business strategy, aiming to expand business domain and contribute to a sustainable society.
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.

Make major contributions to people, society and the planet

Enhance corporate value

Delivering 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.)

**Increase our global presence**

**Contributions to the sustainability of the world**

**Profitable growth**

**Expansion of business opportunities originating from social issues**

- **Business field expansion**
- **Global business expansion**
- **Enhancing our business and brands**

- **Large positive impacts on people, society and the planet**

- **My Kirei Lifestyle**
Kao’s ESG Strategy has been developed and designed to serve people’s needs, behaviors and desire to live sustainable lifestyles that contribute to a sustainable world. We call this the Kirei Lifestyle, and we call the vision, commitments and actions that contribute to that lifestyle the Kirei Lifestyle Plan.

Kao will strive to create a long-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

**My Kirei Lifestyle**

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

#### Kao’s ESG Commitments by 2030

**BY 2030**

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

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

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

#### Kao Actions

- **Improved Quality of Life**
- **Habits for Cleanliness, Beauty & Health**
- **Sustainable Lifestyle Promotion**
- **Purpose Driven Brands**
- **Decarbonization**
- **Zero Waste**
- **Universal Product Design**
- **Safer Healthier Products**
- **Transformative Product Innovation**
- **Responsibly Sourced Raw Materials**
- **Water Conservation**
- **Air & Water Pollution Prevention**
- **Effective Corporate Governance**
- **Full Transparency**
- **Respecting Human Rights**
- **Inclusive & Diverse Workplaces**
- **Employee Wellbeing & Safety**
- **Human Capital Development**
- **Responsible Chemicals Management**

Walking the right path...
### Mid- to Long-term Targets for the 19 Kao Actions

#### Making my everyday more beautiful

<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&lt;sup&gt;1&lt;/sup&gt; 1 billion people</td>
<td>2030</td>
<td>3, 5, 6, 10, 12, 14, 17</td>
</tr>
<tr>
<td>Improved quality of life</td>
<td>% of new or improved products which contribute to a comfortable, beautiful, healthy life and touch the heart of people</td>
<td>Plan to disclose in 2021&lt;sup&gt;1&lt;/sup&gt; 100%</td>
<td>2030</td>
<td>3, 5, 12, 17</td>
</tr>
<tr>
<td>Habits for cleanliness, beauty &amp; health</td>
<td>Coverage of enlightening activities that stimulate habits for cleanliness, beauty &amp; health using Kao products and services (Scope: targeted brands/categories)</td>
<td>Plan to disclose in 2021&lt;sup&gt;1&lt;/sup&gt; 100%</td>
<td>2030</td>
<td>3, 6, 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>2030</td>
<td>10, 12, 17</td>
</tr>
<tr>
<td>Safer healthier products</td>
<td>% of targeted ingredients of concern on which views are disclosed</td>
<td>Plan to disclose in 2021&lt;sup&gt;1&lt;/sup&gt;</td>
<td>2030</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 | Plan to disclose in 2021<sup>1</sup> | 100% | 2030 | 4, 8, 9, 10, 11, 12, 13, 15, 17 |
| Sustainable lifestyle promotion | Coverage of distribution of information, information tools, and enlightening or communication activities for sustainable lifestyle. (Scope: targeted brands/categories) | Plan to disclose in 2021<sup>1</sup> | 100% | 2030 | 4, 11, 12, 17 |
| Purpose driven brands | % of Kao brands that make a contribution to solving social issues and that make people feel and sympathize with the brand's social usefulness. | Plan to disclose in 2021<sup>1</sup> | 100% | 2030 | 12, 17 |
| Transformative product innovation | Cumulative number of transformative sustainable product innovations launched. | 2 innovations | 2030 | 9, 12, 13, 17 |
| Responsible sourced raw materials | % of certified paper products and pulp for consumer products | 91% | 2025 | | |
| Confirm traceability to small oil palm farms | Completed for large plantations | Finish | 2030 | 8, 10, 12, 15, 17 |

#### Making the world healthier & cleaner

| Commitment | % of Kao products that leave a full lifecycle environmental impact that science says our natural world can safely absorb | Plan to disclose in 2021<sup>1</sup> | 100% | 2030 | 3, 6, 7, 12, 13, 14, 15, 17 |
| Decarbonization | % reduction in absolute full lifecycle CO2 emissions<sup>2,4</sup> | 4% | 2030 | 7, 12, 13, 17 |
| Zero waste | % reduction in absolute scope 1 + 2 CO2 emissions<sup>2,4</sup> | 9% | 2030 | 12, 14, 15, 17 |
| Water conservation | % reduction in full lifecycle water use per unit of sales<sup>2,4</sup> | 6% | 2030 | 6, 12, 15, 17 |
| Air & water pollution prevention | % of factories which disclose VOC and COD emissions | V0C 0%, COD 100% | 2025 | 3, 6, 12, 14, 17 |

#### Walking the right path

| Effective corporate governance | Kao recognition or achievement level by external ratings firms | Plan to disclose in 2021<sup>1</sup> | 100% | 2030 | 3, 6, 7, 12, 13, 14, 15, 17 |
| Number of serious compliance violations<sup>3</sup> per annum | CDP Climate Change A, Water A, Forest (Timber) A, Forest (Palm Oil) A | Every year | 3, 6, 7, 12, 13, 14, 15, 17 |
| Full transparency | % of consumer product brands for which people can easily access complete ingredients information | Plan to disclose in 2021<sup>1</sup> | 100% | 2030 | 8, 12, 16, 17 |
| Respecting human rights | % response rate to human rights due diligence (risk assessment across internal, suppliers and contractors respectively) | Internal: 100%, suppliers: 20%, contractors: 0% | 2030 | 5, 8, 10, 17 |
| Inclusive & diverse workplaces | Affirmative answer rate to a question on “Inclusion and Diversity” on Kao’s employee survey with voice of employees | Did not conduct Find | 2030 | 5, 8, 10 |
| % of female managers | 29.4% | | 2030 | 3, 8 |
| Employee wellbeing & safety | Lost time accident frequency rate (per million hours worked) | 0.78 | 2030 | 3, 8 |
| Average number of lost long-term work days (days/employee) | 129 | 2030 | 3, 12, 17 |
| Human capital development | Affirmative answer rate to a question on “Development Opportunities & Climate” on Kao’s employee survey with voice of employees | Did not conduct Find | 2030 | 3, 4, 5, 8, 10 |
| Responsible chemicals management | % of chemical products and raw materials with disclosed information of benefit and safety to ensure safe usage for our customers | Plan to disclose in 2022<sup>2</sup> 100% | 2030 | 3, 6, 12, 14, 17 |

---

<sup>1</sup> Conducted the review of detailed requirements in 2019  
<sup>2</sup> Built a data collection system in 2019  
<sup>3</sup> Conducted review of detailed requirements in 2019 and plan to build a data collection system in 2020  
<sup>4</sup> 2017 is the base year.
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.

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.
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

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 Lifestyle 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 FY2018, 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.

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.