

Kao's Corporate Strategy



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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

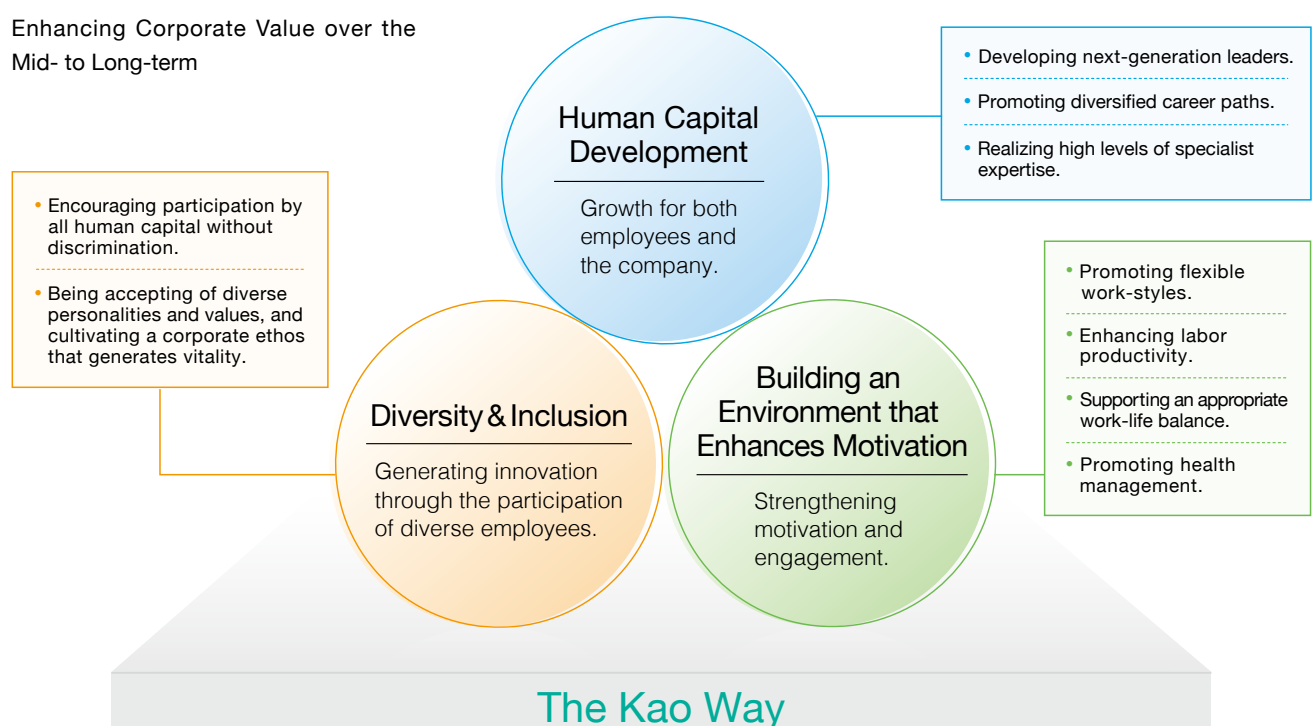
Executive Officer
Senior Vice President, Human Capital Development, Global

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

Human Capital Development Initiatives

Items	2015	2016	2017	2018	2019
Human Capital Development		Establishment and effective utilization of a global human capital management system.		Expansion of next-generation human capital development (with an expansion of liberal arts training).	Overhauling initial training for new employees.
	Implementation of next-generation leader development training.				
	Secession planning for the holders of key positions, and promotion of success or development.				
Diversity & Inclusion (D&I)				Implementation of LGBT-related e-learning.	
		First-stage D&I Promotion Plan (implemented over two years).		Second-stage D&I Promotion Plan (implemented over two years).	
	- Adoption of real-time captioning for Executive Officers' speeches. - Initiation of LGBT awareness-raising.	- Establishment of the promotion department "Diversity & Inclusion." - Expansion of maternity and childcare support initiatives. - Launching of the disabled employees supporter system.	- Expansion of the childcare, nursing care and family care support system. - Expansion of sick leave provision. - Strengthening of support initiatives to facilitate participation by senior human capital. - Support for the active participation of diverse human capital, by expanding the range of work opportunities available to disabled persons.	Launching recruitment for positions targeted at senior human capital.	Inclusion in The Valuable 500^{*1}.
Awards etc.	Nadeshiko brand	Platinum Kurumin mark		- Nadeshiko brand 24th place in the Thomson Reuters D&I Index (highest-placed enterprise in Japan)	- Semi-Nadeshiko brand - Nikkei WOMAN^{*2} - Prime Minister's Award^{*3}
Building an Environment that Enhances Motivation	Review of compensation levels (ongoing implementation of compensation in line with company performance).				
	Implementation of the Kao Forum and Employee-Management Meetings (held twice a year, on an ongoing basis), as a venue for dialogue with employees.				
	Implementation of the <i>Find</i> employee survey (held on an ongoing basis once every two years, with the survey implemented in the first year and the action plan in the second year).				
Awards etc.	- Adoption of hourly leave system. - Adoption of flextime system (with no required core hours).	Introduction of mental health management stress checks.	Formulation of the Kao Health 2020 mid-term health-related plan.	- Adoption of a working-from-home system. - Expansion of flextime system. - Commencement of ban on smoking during working hours.	
	Selected as a Health and Productivity Management Stock Selection.	Selected as a Health and Productivity Management Stock Selection.	- Selected as a Health and Productivity Management Stock Selection. - Awarded a Development Bank of Japan, Inc. (DBJ) Health Management Rating.	Selected as a Health and Productivity Management Stock Selection.	Selected as a Health and Productivity Management Stock Selection.

*1 The Valuable 500 is an international initiative aimed at linking disabled people with business enterprises, which was launched at the 2019 World Economic Forum in Davos.

*2 The Nikkei WOMAN award is presented to the company that has done most to promote the advancement and participation of women overall.

*3 "Leading Companies Where Woman Shine" which is an award organized by the Cabinet Office.

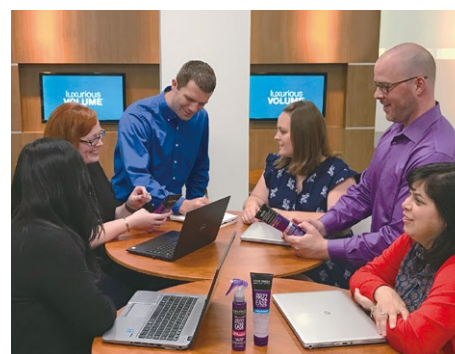
Building an Environment That Enhances Motivation

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.



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.



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.



Human Capital Development

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.

Education and training expenses per employee
51,000 yen (FY2019)
Total Kao Group Education and Training Expenditure (actual performance)
1.73 billion yen (FY2019)



Diversity & Inclusion

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.

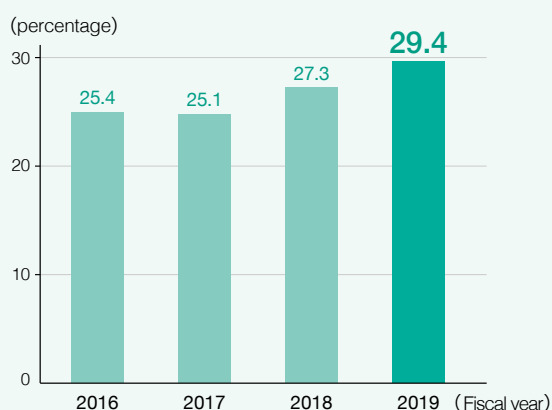
A further point is that female consumers constitute a large share of the buyers of the cosmetics products, household goods etc. which constitute our main product lines. By attaching great importance to the views expressed by female employees at the product development and marketing stages in our business 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.

* The Valuable 500 is an international initiative aimed at linking disabled people with business enterprises, which was launched at the 2019 World Economic Forum in Davos.

Percentage of female managers



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

Executive Officer
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 matrix.

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.

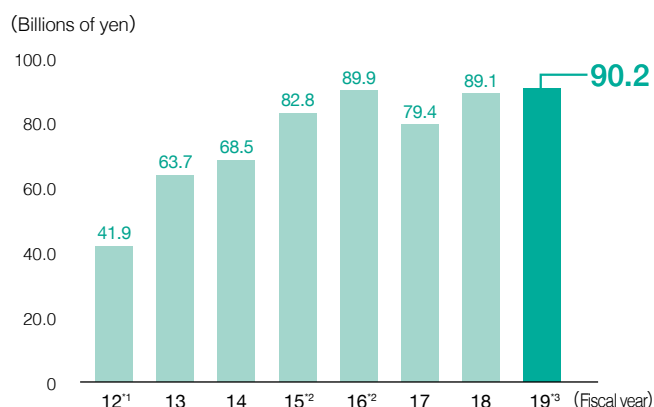
Our goal in M&A activity is to obtain outstanding technologies and business models, with a particular focus on B-to-B business in our business for hair salons, professional-use products business and the Chemical Business, and to build up new assets aimed at expanding and creating synergy with Kao's core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

Trend in Capital Investments

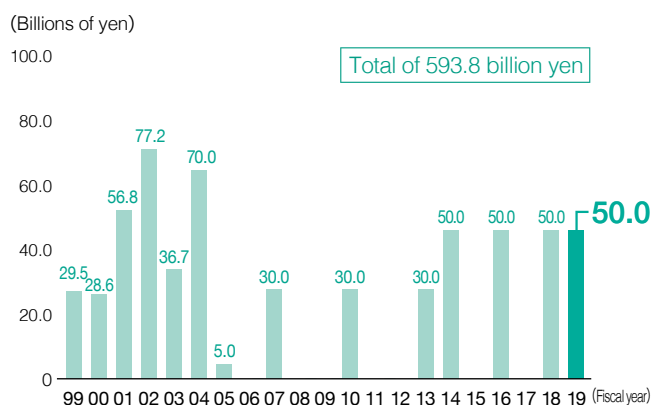


*1 Kao changed its fiscal year end for FY2012 from March 31 to December 31.

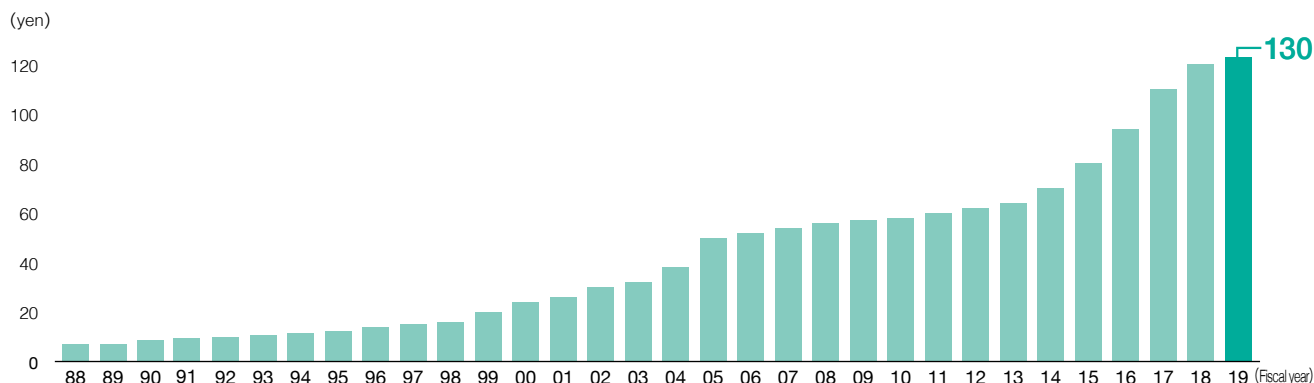
*2 The Kao Group adopted IFRS in FY2016. Figures for the fiscal year ended December 31, 2015 have been recalculated based on IFRS.

*3 Excluding right-of-use assets.

Status of Share Repurchases



Performance of Cash Dividends per Share



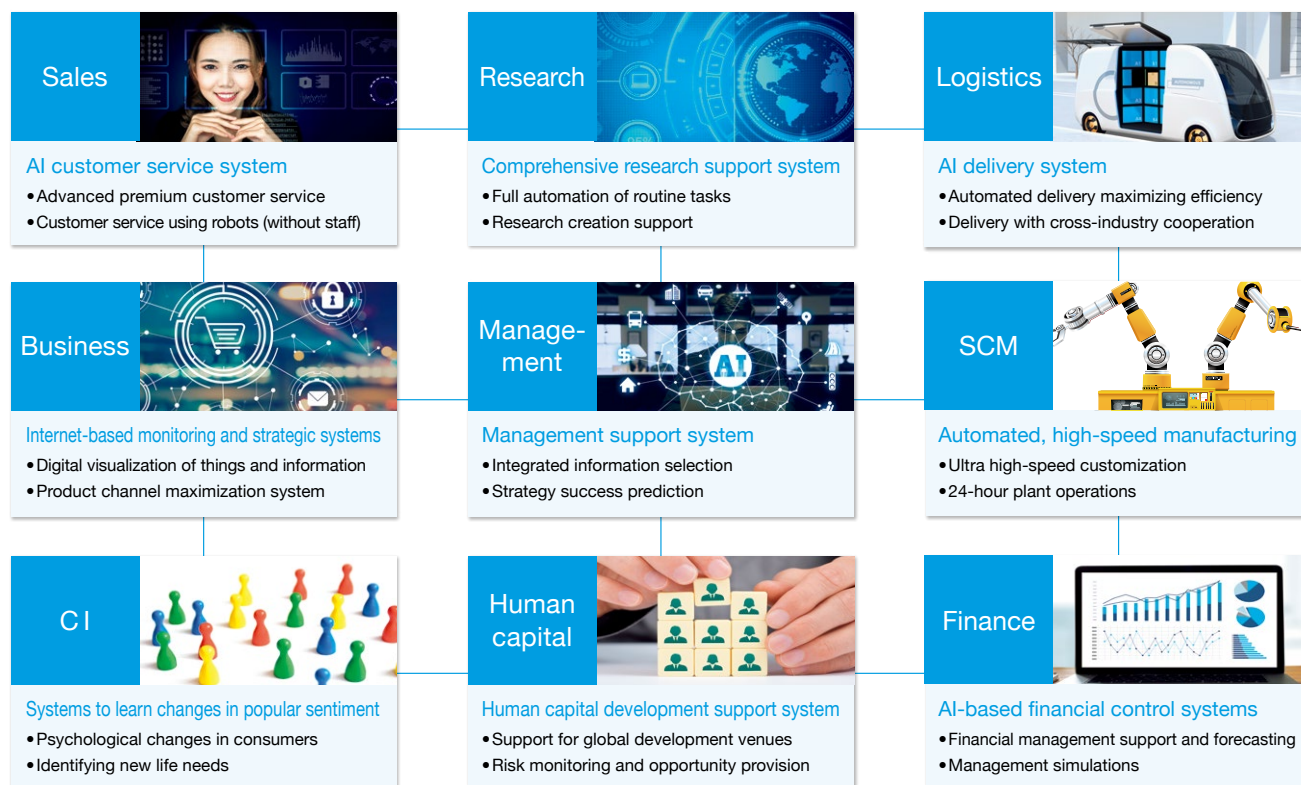
Advanced Digital Technology



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



FY2019 Main Initiatives in Digital Fields

Theme	Main initiatives
Integration of all Kao systems	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.
Application of cutting-edge technologies	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.
Business, sales and co-creation reforms	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.
Digital work-style reforms	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.

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 business

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.

Enhancing Risk and Crisis Management

Clarifying main risks and strengthening our counter response

Addressing strategic risks affecting profitable growth

Rapid and appropriate response when risks manifest

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

- Internal risk surveys
- Assessment of the external environment

Defining themes and persons responsible

- Interviews with management
- Deliberation in the Management Committee

Establishing systems

- Forming the response team
- Formulating action plans

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.



Corporate Risks and Main Initiatives in FY2019

Theme	Details of risks	Main initiatives
Changes in the distribution environment	Risks that would prevent conducting appropriate sales activities for the changes in the distribution environment.	We have conducted activities to collaborate with digital platformers operating globally.
Risks related to business in Asia	Risks that would cause significant delays in the business plan for Asia.	We have strengthened our system to respond quickly to tightened laws and regulations in Asian countries as a priority theme.
Response to product quality issues	Risks of serious quality issues arising that would cause trust in Kao to fall.	We are enhancing internal education and other initiatives to respond when serious quality issues arise and prevent their occurrence.
Large-scale earthquakes and other natural disasters	Risks of obstacles to supplying markets with products caused by large-scale earthquakes or other natural disasters.	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.
Pandemics	Risks of business suspension due to pandemics from new strains of influenza or other disease.	We have rebuilt 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.
Personal information protection	Risks of personal information leaks caused by intentional acts including cyber attacks or negligence.	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.
Reputation risks	Risks that cause damage to corporate trust and brand value due to the spread of critical evaluations and rumors against the Kao Group.	We have developed our system to monitor external information and are strengthening our emergency response system for when a reputation risk arises.
Risks associated with the use of digital media	Significant risks associated with the use of digital media.	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.
Currency exchange rate fluctuations	Risks associated with exchange rate fluctuations.	We have investigated the structure of exchange rate fluctuation risks and our response, and have confirmed our future response direction.



Financial Report 2019

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/investor-relations/pdf/financial-reports-fy2019e-01.pdf

For more information about the content of the main risks faced, and the main initiatives being taken to address them, see the “Business Risks and Other Risks” Section of our Financial Report.