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.
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Chapter 1

To Kao Group Stakeholders

What Kao Aims for
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 Yuki-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.

Yuki-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 Yuki-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 Yuki-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 Yuki-Monozukuri as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, Yuki literally means “good/excellent,” and Monozukuri means “development/manufacturing of products.”
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.

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?

CEO Interview
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.

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.

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

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**

**FY2017 to FY2020**

**Mid-term Plan K20**\(^1\)

Review of Numerical Targets and Performance

<table>
<thead>
<tr>
<th>Numerical Targets</th>
<th>Results</th>
<th>Achievement ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>1.40 trillion yen</td>
<td>1.47 trillion yen</td>
</tr>
<tr>
<td>Operating income</td>
<td>150.0 billion yen</td>
<td>164.4 billion yen</td>
</tr>
<tr>
<td>Sales ratio outside Japan</td>
<td>Over 30%</td>
<td>35%</td>
</tr>
</tbody>
</table>

An important milestone toward achieving our vision 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

Formulated detailed strategies and steadily achieved results

Record highs for profits
- Achieved record highs for operating income for the 7th consecutive year

Sales growth
- -0.4% year-on-year (like-for-like\(^2\) +0.7%)

Increase in operating margin
- +0.3 points year on year

Dividend increases
- +10 yen year on year

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

Improvements in employee compensation
- These 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)
Make Kao a Company with a Global Presence

What Kao Aims to Be*1

- 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>2030 Goals</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>

ESG Strategy

- Kirei Lifestyle Plan
- 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.

History Up to Today

1987 Concentrated laundry detergent
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.

1995 Establishment of Kao Chemical Corporation Shanghai
Kao Chemical Corporation Shanghai is established with an eye to expanding business in the fast-growing Chinese market.

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 billion yen since entering the floppy disk business in 1965, but a collapse in product prices causes profitability to decline. In April 1998, Kao announces a full withdrawal from the business.

2005 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.
1990
Japan’s bubble
Kao Sekken launches imported products, with the quality to Japanese-made soap affordable determined to offer an Kao founder from our founding 1890

The Kao Way America.
The Chemical Business in North... 1991, enhancing... downsized laundry detergent that offers powerful cleaning power

1993
Concentrated laundry detergent launched to start the Consumer Products Business in China.

1994
Hair care products are launched to start the Consumer Products Business in China.

1995
Kao becomes the first Japanese company to introduce the EVA® technology business using the eponymous brand of U.K. hair stylist John Frieda.

1996
Kanebo Cosmetics Inc. joins the Kao Group. Kao professional hair care products, joins the Kao Group. Goldwell, manufacturer of... foundation built by Goldwell.

1997
Withdrawal from the business. Sales expand to a scale of more than 80 billion yen since entering the floppy disk business in 1985, but a collapse in product prices causes profitability to decline. In April, Kao announces a full withdrawal from the business.

1998
Establishment of Kao Chemical Corporation Shanghai

1999
Establishment of Kao Chemical Corporation

2000
EVA® is a registered trademark of *1

2001
Kao announces the Kao Environmental Statement and new CI announced defines the new corporate identity (CI) of “Enriching lives, in harmony with nature.”

2002
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.

2003
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.

2004
Kanebo Cosmetics are utilized to reinforce Cosmetics Business’s development within and outside Japan.

2005
Orbe Hair Care, LLC joins the Kao Group

Orbe, 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.

2006
Kanebo Cosmetics Inc. joins the Kao Group

The strengths of both Kao and Kanebo Cosmetics are utilized to

2007
Kao launches Attack toner binders in 1991, enhancing... of paper used in packaging and product. This reduced the amount with just a small amount of

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

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.

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.
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

<table>
<thead>
<tr>
<th>Kao’s ESG Commitments by 2030</th>
<th>BY 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td><strong>Kao’s Commitments by 2030</strong></td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>100% of our products will leave a full life cycle environmental footprint that science says our natural world can safely absorb.</td>
<td><strong>Kao Actions</strong></td>
</tr>
</tbody>
</table>

**Walking the right path**

- IMPROVED QUALITY OF LIFE
- HABITS FOR CLEANLINESS, BEAUTY & HEALTH
- UNIVERSAL PRODUCT DESIGN
- SAFER HEALTHIER PRODUCTS
- SUSTAINABLE LIFESTYLE PROMOTION
- PURPOSE DRIVEN BRANDS
- TRANSFORMATIVE PRODUCT INNOVATION
- RESPONSIBLY SOURCED RAW MATERIALS
- WATER CONSERVATION
- AIR & WATER POLLUTION PREVENTION

**Kao’s ESG**

- EFFECTIVE CORPORATE GOVERNANCE
- FULL TRANSPARENCY
- RESPECTING HUMAN RIGHTS
- INCLUSIVE & DIVERSE WORKPLACES
- EMPLOYEE WELLBEING & SAFETY
- HUMAN CAPITAL DEVELOPMENT
- RESPONSIBLE CHEMICALS MANAGEMENT
## 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 brightening 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>Plan to disclose in 2021&lt;sup&gt;1&lt;/sup&gt; 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. | Plan to disclose in 2021<sup>1</sup> 10 or more                             | 2030                      | 9, 12, 13, 17         |
| Responsibly sourced raw materials                 | % of certified paper products and pulp for consumer products              | Plan to disclose in 2021<sup>1</sup> 91%                                   | 2025                      | 8, 10, 12, 15, 17     |
|                                                  | Confirm traceability to small oil palm farms                               | Completed for large plantations                                             |                           |                  |

### 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>4</sup> 4%       | Plan to disclose in 2021<sup>1</sup> 22%                                     | 2030                      | 7, 12, 13, 17         |
|                                                  | % reduction in absolute scope 1 + 2 CO₂ emissions<sup>4</sup> 9%           | Plan to disclose in 2021<sup>1</sup> 22%                                     | 2030                      | 12, 14, 15, 17         |
| Zero waste                                        | Quantity of innovative firm based packaging penetration for Kao and others per annum | Plan to disclose in 2021<sup>1</sup> 300 million                             | 2030                      | 6, 12, 15, 17         |
| Water conservation                                | % reduction in full lifecycle water use per unit of sales<sup>6</sup> 6% | Plan to disclose in 2021<sup>1</sup> 10%                                     | 2030                      |                  |
|                                                  | % reduction in full lifecycle water use per unit of sales in regions with water scarcity<sup>4</sup> | Plan to disclose in 2021<sup>1</sup> 40%                                     | 2030                      |                  |
| Air & water pollution prevention                  | % of factories which disclose VOC and COD emissions | Plan to disclose in 2021<sup>1</sup> 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 |
| 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) | Plan to disclose in 2021<sup>1</sup> 100%                                     | 2030                      | 5, 8, 10, 17         |
| Inclusive & diverse workplaces                   | Affirmative answer rate to a question on “Inclusion and Diversity” on Find, our 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/people) 129        | 2030                      | 3, 8         |
| Human capital development                        | Affirmative answer rate to a question on “Development Opportunities & Climate” on Find, our 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 disclosed information on 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     |
|                                                  | % of areas where impact on health, environment and safety from chemicals are managed responsibly and sustainably considering their stages from raw materials procurement to disposal | Plan to disclose in 2023<sup>3</sup> 100%                                     | 2030                      |                  |

*1 Conducted the review of detailed requirements in 2019  
*2 Built a data collection system in 2019  
*3 Conducted review of detailed requirements in 2019 and plan to build a data collection system in 2020  
*4 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.
- Compact type
- Conventional type

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.
Chapter 2

Kao’s Monozukuri Strategy

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- 41 Consumer Products Sales
- 43 Chemical Business
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.

**Yoki-Monozukuri with ESG Perspective**

***R&D***
- Innovation capability through Essential Research.
- High-value-added product development capability.
- Unique technologies that realize outstanding performance.
- Developing products that reduce the burden on the environment.
- Developing products that can be used safely and with peace of mind.
- Transformative product development.
- Developing products that embody universal product design.

***Strengths***
- 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.

***ESG activities***
- Cultivating purpose-driven brands.
- Environmentally-conscious brands and products creation that seeks to reduce plastic usage and cut CO2 emissions.

***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.

***Strengths***
- 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.

***ESG activities***
- 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.

***Strengths***
- 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.

***ESG activities***
- 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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**Kao Integrated Report 2020**
Strengths
- Procurement that addresses environmental and social issues.
- Procurement risk management capabilities and stable product supply.
- Network of strong relationships with suppliers.

ESG activities
- 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.

Strengths
- Factory capabilities that embody safe, stable manufacturing.
- High-quality, low-cost, environmentally-conscious production technology.
- Product supply driven by demand forecasting.

ESG activities
- 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.

Moving forward together with consumers
- Reducing waste and promoting recycling.
- Reducing water usage.
- Reducing CO₂ emissions.
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 distinctive fundamental technologies and our new product development capabilities facilitates the generation of unique new product ideas that will create new value.

Mid-term Growth Strategy

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 mobilize 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.

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.

Responsibility procurement

- Procurement of certified raw materials
- Supplier monitoring
- Support for small-scale oil palm farms

Stable procurement

- Operational innovation
- Supply chain improvement
- Business Continuity Planning (BCP) initiatives

Strengthening competitiveness over the mid- to long-term

Realizing Yoki-Monozukuri from an ESG perspective
ESG-driven Procurement Initiatives in FY2019

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 oil palm farmers, using block-chain 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, 92% 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 1,800 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.

**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.

**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.

**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 block-chain technology. Kao joined SUSTAIN in 2016.

**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 initiatives. Kao began asking suppliers to fill out CDP Supply Chain questionnaires in 2009.
Supply Chain Management

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.

Supply Chain Management Initiatives

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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.

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

*1 Total Cost Reduction (TCR) is a business innovation activity that involves participation by all employees from a comprehensive perspective.
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, while 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.

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.

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.
Overview of Kao’s Business in FY2019

<table>
<thead>
<tr>
<th>Business</th>
<th>Net Sales</th>
<th>Operating Income</th>
<th>Operating Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cosmetics Business</td>
<td>1,502.2 billion yen</td>
<td>211.7 billion yen</td>
<td>14.1%</td>
</tr>
<tr>
<td>Skin Care and Hair Care Business</td>
<td>340.8 billion yen (+1.1% like-for-like) (22.7% of consolidated net sales)</td>
<td>49.5 billion yen (+0.7 billion yen year-on-year) (23.5% of operating income)</td>
<td>14.5% (+0.2 percentage points year-on-year)</td>
</tr>
<tr>
<td>Human Health Care Business</td>
<td>255.2 billion yen (-3.5% like-for-like) (17.0% of consolidated net sales)</td>
<td>17.2 billion yen (-10.7 billion yen year-on-year) (8.2% of operating income)</td>
<td>6.7% (-3.7 percentage points year-on-year)</td>
</tr>
<tr>
<td>Fabric and Home Care Business</td>
<td>359.5 billion yen (+4.6% like-for-like) (23.9% of consolidated net sales)</td>
<td>71.8 billion yen (+0.5 billion yen year-on-year) (34.1% of operating income)</td>
<td>20.0% (-0.7 percentage points year-on-year)</td>
</tr>
<tr>
<td>Chemical Business</td>
<td></td>
<td>30.8 billion yen (+0.2 billion yen year-on-year) (14.6% of operating income)</td>
<td>10.8% (+1.0 percentage point year-on-year)</td>
</tr>
</tbody>
</table>

*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.

Kao Integrated Report 2020
**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.

**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.

**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.

**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.

**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.
Consumer Products Business

With a sincere approach to our 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.

Net Sales and Operating Income

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Sales (Billions of yen)</th>
<th>Operating Income (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,228.8</td>
<td>134.2</td>
</tr>
<tr>
<td>2016</td>
<td>1,225.6</td>
<td>137.4</td>
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<tr>
<td>2017</td>
<td>1,219.8</td>
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<tr>
<td>2018</td>
<td>1,216.0</td>
<td>173.0</td>
</tr>
<tr>
<td>2019</td>
<td>1,232.9</td>
<td>175.7</td>
</tr>
</tbody>
</table>

Net Sales 1,257.0 billion yen (+2.0% year-on-year/+2.9% on a like-for-like basis*)
Operating Income 179.9 billion yen (+4.2 billion yen year-on-year*)
Operating Margin 14.3% (+0.0% percentage points year-on-year)

*1 Like-for-like growth rates exclude the effect of translation of local currencies into Japanese yen.
*2 The sales organization of Kao’s Consumer Products Business in Japan was reorganized from FY2018. The operating income for FY2017 was restated accordingly.
**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 Oribe, 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 seeking out challenges in new product categories as well. In the hygiene business domain, we launched the brand sonae brand in the hygiene business domain and PAF, 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>Composition</th>
<th>(Billions of yen)</th>
<th>Net sales</th>
<th>Year-on-year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Japan</strong></td>
<td></td>
<td>899.6</td>
<td>+15.7</td>
</tr>
<tr>
<td><strong>Asia</strong></td>
<td></td>
<td>206.3</td>
<td>+7.6</td>
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<tr>
<td><strong>Americas</strong></td>
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<td>88.8</td>
<td>+3.8</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td></td>
<td>62.2</td>
<td>-3.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>1,257.0</td>
<td>+24.1</td>
</tr>
</tbody>
</table>

* Figures 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 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.
Cosmetics Business 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.

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.

Strategy

Global Portfolio
We established the New Global Portfolio, consisting of five business entities in the Cosmetics Business, in May 2018. For the 11 brands selected as global strategic brands (G11), Kao will actively pursue expansion of the areas in which they are offered. Meanwhile, by also enhancing our travel retail business, Kao will accelerate their development in Japan and elsewhere in Asia and in Europe. Kao has designated eight regional brands (R8) for priority development mainly in Japan and will concentrate investment in them to support their development.

Reorganization of counseling and self-selection brands
In Japan, Kao will drive creation of strong brands with clearly redefined brand positioning. Kao will reorganize its existing brands into counseling brands, which are sold via beauty consultants who have received specialized education, and self-selection brands, and revise how the brands are designed and sold.

Management reform
In January 2019, we introduced a brand team system to better respond to the fast pace of change in the business environment. The brand teams will implement the Plan, Do, Check, Action (PDCA) cycle in more adoptable and faster cycles. Authority will be delegated to brand team leaders, who will conduct targeted marketing at a brisk pace.
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 Bioré 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 Oribe, 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.

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.
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 in everyday life to deepen our ties to 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.
For our corporate customers, including restaurants and other food services businesses, medical and care facilities, hotels and laundry firms, we provide products which make full use of our cleaning, anti-bacterial, odor removal and other technologies, along with total solutions that match individual client companies’ needs. By providing products that are used safely, securely and effectively and which are environmentally conscious, and delivering solutions for customers’ issues, we not only help to enhance the corporate value of our customers, but also contribute to society by realizing clean environments and enhanced hygiene management in a wide range of living environments outside the home.

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

Offering Solutions to Social Issues

Food poisoning incidents resulting from unsatisfactory hygiene management, and infection by norovirus, coronavirus, etc., constitute ongoing social issues. Through the provision of effective cleaning products and by assisting front-line workers in the achievement of thorough hygiene management, we are working to help solve these issues. In the aging society, we offer solutions for the realization of human-centric care environments that not only enhance quality of life for care recipients but also reduce the burden on care providers. With regard to the labor shortage due to the trend toward declining birthrate, by offering efficient, effective operational systems we are striving to contribute toward the resolution of this issue.

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 Washing Systems, LLC (WSI), a firm engaged in the development and sale of professional-use cleaning products. 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.
Consumer Products Sales

The Consumer Products Sales Department has strived 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.

To address these major changes taking place in society and continue providing new value, companies must also transform themselves. Up to now, we have provided value to society and consumers mainly through the mass-market business, but in the future we will need to modify our business model so that we can deliver high-added-value products to individual consumers through one-to-one marketing using digital and other tools.

We will shift our sales activities to meet the needs of the changing times, continue to provide new value to consumers, and take steps that enable continuous growth at retailers and at us.

Changes in Conditions Affecting Business

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.

Meeting Needs in Increasingly Borderless Markets

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.

Kao Integrated Report 2020
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 word, 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

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<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Minimizing/eliminating product returns</td>
</tr>
<tr>
<td>2</td>
<td>Fundamentally reviewing promotional materials</td>
</tr>
<tr>
<td>3</td>
<td>Reviewing in-store promotional products plans</td>
</tr>
</tbody>
</table>

2. Increasing logistics efficiency
Recent increases in the volume of delivered goods and delivery frequency, coupled with a shortage of truck drivers, have caused worsening work conditions for truck drivers and a home delivery crisis, which have risen to the level of social issues. A less-than-optimum logistics structure also causes greater impact on the environment and can be cited as a problem. We are working to resolve this problem by increasing our logistics efficiency.

Specifically, we are implementing initiatives including securing lead time before deliveries, alleviating wait times for truck drivers, and equalizing quantities delivered to the logistics warehouses of chain stores. In partnership with various stakeholders throughout the supply chain, we are reducing the number of trucks in operation and the time truck drivers spend at work. In promoting these kinds of initiatives, we have also declared our support for the “Sustainable Logistics Movement” put forward by the Japanese Ministry of Land, Infrastructure, Transport and Tourism.

Without being constrained by traditional values, we will deepen the quality of these initiatives by moving ahead with reforms and advance sales activities that are able to contribute to the global environment, society and consumers.
### 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.

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**Net Sales**\(^{+2}\) and Operating Income

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Sales (Billion yen)</th>
<th>Operating Income (Billion yen)</th>
<th>Operating Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>288.5</td>
<td>30.1</td>
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<td>2016</td>
<td>288.5</td>
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<td>2017</td>
<td>273.8</td>
<td>29.7</td>
<td>10.8%</td>
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<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>30.6</td>
<td>10.8%</td>
</tr>
</tbody>
</table>

\(^{+2}\) Like-for-like growth rates exclude the effect of translation of local currencies into Japanese yen.

\(^{+1}\) Includes intersegment transactions.

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*Masahiro Katayose
Executive Officers
President, Chemical Business, Global*
**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: 46
- Finance: 51
- Advanced Digital Technology: 53
- Risk and Crisis Management: 55
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.

Diversity & Inclusion
Generating innovation through the participation of diverse employees.

Building an Environment that Enhances Motivation
Strengthening motivation and engagement.

The Kao Way

• Encouraging participation by all human capital without discrimination.
• Being accepting of diverse personalities and values, and cultivating a corporate ethos that generates vitality.
• Developing next-generation leaders.
• Promoting diversified career paths.
• Realizing high levels of specialist expertise.
• Promoting flexible work-styles.
• Enhancing labor productivity.
• Supporting an appropriate work-life balance.
• Promoting health management.
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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<td>Human Capital Development</td>
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<td>Diversity &amp; Inclusion (D&amp;I)</td>
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<tr>
<td>Implementation of next-generation leader development training.</td>
<td>First-stage D&amp;I Promotion Plan (implemented over two years).</td>
<td>Second-stage D&amp;I Promotion Plan (implemented over two years).</td>
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</tr>
<tr>
<td></td>
<td>Implementation of D&amp;I training sessions</td>
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<tr>
<td>Awards etc.</td>
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<td></td>
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<tr>
<td><em>Nadeshiko brand</em></td>
<td><em>Platinum Kurumin mark</em></td>
<td><em>Nadeshiko brand</em></td>
<td><em>24th place in the Thomson Reuters D&amp;I Index</em> (highest-placed enterprise in Japan)</td>
<td><em>Semi-Nadeshiko brand</em></td>
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<tr>
<td></td>
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<tr>
<td>Building an Environment that Enhances Motivation</td>
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<td>Review of compensation levels (ongoing implementation of compensation in line with company performance).</td>
<td>Implementation of the Kao Forum and Employee-Management Meetings (held twice a year, on an ongoing basis), as a venue for dialogue with employees.</td>
<td>Implementation of the Find 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).</td>
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<tr>
<td>Awards etc.</td>
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</tbody>
</table>

*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.
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.

<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>
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.
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%.

Kao’s Financial Foundation

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

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
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)

**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**
- Internet-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

**SCM**
- Automated, high-speed manufacturing
  - Ultra high-speed customization
  - 24-hour plant operations

**CI**
- Systems to learn changes in popular sentiment
  - Psychological changes in consumers
  - Identifying new life needs

**Human capital**
- 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
### FY2019 Main Initiatives in Digital Fields

<table>
<thead>
<tr>
<th>Theme</th>
<th>Main initiatives</th>
</tr>
</thead>
</table>
| **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.

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.

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

Process to Decide Corporate Risk Themes

- Internal risk surveys
- Assessment of the external environment
- Interviews with management
- Deliberation in the Management Committee
- 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

<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 platformers 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 disease.</td>
<td>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.</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>

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.
FY2019 Highlights

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.

### ESG-driven Management Initiatives

<table>
<thead>
<tr>
<th>Month</th>
<th>Initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>February</td>
<td>Began providing support for the Menstrual Hygiene Improvement Project in Uganda.</td>
</tr>
<tr>
<td>March</td>
<td>Collaborated with China’s Ministry of Environmental Protection on the Nation-wide Cleanliness and Water-saving Initiatives for the eighth consecutive year.</td>
</tr>
<tr>
<td>April</td>
<td>Announced Kao’s ESG Strategy, the Kirei Lifestyle Plan.</td>
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<tr>
<td></td>
<td>Kao’s Tochigi Plant and Toyohashi Plant began operation of photovoltaic power generation.</td>
</tr>
<tr>
<td>June</td>
<td>Participated, as a member of Japan TCGF, in the formulation of policies to address the issue of plastic waste.</td>
</tr>
<tr>
<td></td>
<td>Took part in the G20 Innovation Exhibition.</td>
</tr>
<tr>
<td>July</td>
<td>Kao’s GHG reduction targets approved by the Science Based Targets initiative.</td>
</tr>
<tr>
<td>September</td>
<td>Kao announced that it was taking on new challenges, in line with its major shift toward ESG-driven management.</td>
</tr>
</tbody>
</table>

### Evaluations from External Organizations

<table>
<thead>
<tr>
<th>Month</th>
<th>Recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>Kao received the highest rating for water in international NPO CDP’s evaluation.</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
<tr>
<td>February</td>
<td>Selected as one of the World’s Most Ethical Companies® (13th consecutive year).</td>
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<td></td>
<td>Selected as a Health and Productivity Management Brand for the fifth consecutive year.</td>
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<td></td>
<td>Recognized as Supplier Engagement Leader by CDP, in the Supplier Engagement Leader for the second year in a row.</td>
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<tr>
<td>June</td>
<td>Kao’s Raku-ruku 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.</td>
</tr>
<tr>
<td></td>
<td>Won the Minister of Economy, Trade and Industry Award in the Green &amp; Sustainable Chemistry (GSC) Awards for Kao’s realization of printing technology that allows printing on soft plastic film using water-based ink-jet ink.</td>
</tr>
<tr>
<td>November</td>
<td>Won the Prime Minister’s Prize in the 3Rs (Reduce, Reuse, Recycle) Promotion Merit Awards.</td>
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<tr>
<td>December</td>
<td>Won the Prime Minister’s Award in the Awards for Companies that have Played a Leading Role in Furthering Women’s Advancement.</td>
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<tr>
<td></td>
<td>Won 2019 Environment Minister’s Award for Global Warming Prevention Activity in the Implementation and Discrimination of Countermeasures Category.</td>
</tr>
</tbody>
</table>
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)*1 for the sixth year in a row
- 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
- 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

External Evaluation

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<tbody>
<tr>
<td>World’s Most Ethical Companies®</td>
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<tr>
<td>CDP (climate change)</td>
<td>Outstanding information disclosure</td>
<td>Outstanding information disclosure</td>
<td>Outstanding information disclosure</td>
<td>Outstanding information disclosure</td>
<td>Outstanding information disclosure</td>
<td>Outstanding information disclosure</td>
<td>Excellent</td>
<td>A-</td>
<td>A</td>
<td>A</td>
<td>A</td>
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<td>A</td>
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<tr>
<td>CDP (water security)</td>
<td>A-</td>
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<tr>
<td>CDP (supply chain)</td>
<td>A-</td>
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<tr>
<td>MSCI ESG Leaders Indexes</td>
<td></td>
<td>BBB</td>
<td>A</td>
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<td>BBB</td>
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<td>FTSE4Good Index Series</td>
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<tr>
<td>Bloomberg Gender-Equality Index</td>
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</table>

CO2 Emissions across the Product Lifecycle*2

Water Use across the Product Lifecycle*4

- (Thousands of tons) (%)
- (Millions m³) (%)

- (Fiscal year)
### Net Sales/Operating Income/Operating Margin

<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>1,471.8</td>
<td>1,474.6</td>
<td>11.2</td>
</tr>
<tr>
<td>2016</td>
<td>1,457.6</td>
<td>1,459.4</td>
<td>11.3</td>
</tr>
<tr>
<td>2017</td>
<td>1,499.4</td>
<td>1,496.1</td>
<td>12.7</td>
</tr>
<tr>
<td>2018</td>
<td>1,504.8</td>
<td>1,507.7</td>
<td>13.7</td>
</tr>
<tr>
<td>2019</td>
<td>1,502.2</td>
<td>1,501.7</td>
<td>13.8</td>
</tr>
</tbody>
</table>

**IFRS**

### ROE*/EPS**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>ROE (%)</th>
<th>EPS (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>14.1</td>
<td>209.62</td>
</tr>
<tr>
<td>2016</td>
<td>16.1</td>
<td>253.43</td>
</tr>
<tr>
<td>2017</td>
<td>18.6</td>
<td>298.30</td>
</tr>
<tr>
<td>2018</td>
<td>18.9</td>
<td>314.25</td>
</tr>
<tr>
<td>2019</td>
<td>17.6</td>
<td>306.70</td>
</tr>
</tbody>
</table>

**IFRS**

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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Income (Billions of yen)</th>
<th>Total Dividend Amount (Billions of yen)</th>
<th>Share Repurchases (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>197.19</td>
<td>47.4</td>
<td>0</td>
</tr>
<tr>
<td>2016</td>
<td>209.62</td>
<td>54.0</td>
<td>0</td>
</tr>
<tr>
<td>2017</td>
<td>253.43</td>
<td>62.6</td>
<td>0</td>
</tr>
<tr>
<td>2018</td>
<td>298.30</td>
<td>73.4</td>
<td>0</td>
</tr>
<tr>
<td>2019</td>
<td>314.25</td>
<td>87.4</td>
<td>0</td>
</tr>
</tbody>
</table>

**IFRS**

### R&D Expenses/R&D Expenses Ratio

<table>
<thead>
<tr>
<th>Fiscal 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>52.0</td>
<td>3.5</td>
</tr>
<tr>
<td>2016</td>
<td>52.7</td>
<td>3.6</td>
</tr>
<tr>
<td>2017</td>
<td>54.6</td>
<td>3.7</td>
</tr>
<tr>
<td>2018</td>
<td>56.7</td>
<td>3.6</td>
</tr>
<tr>
<td>2019</td>
<td>57.7</td>
<td>3.8</td>
</tr>
</tbody>
</table>

**IFRS**
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>Results</th>
<th>Targets</th>
<th>SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>Minimize environmental impact from our business activities and contribute to the realization of the One Planet Living vision for environmental sustainability</td>
<td>Reduction rate for CO₂ emissions*1</td>
<td>Scope 1 and 2</td>
<td>-29%</td>
<td>-30%</td>
<td>-30%</td>
<td>-32%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Across the entire product lifecycle (Kao Group)</td>
<td>-17%</td>
<td>-14%</td>
<td>-14%</td>
<td>-17%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Across the entire product lifecycle (Kao Group in Japan)</td>
<td>-17%</td>
<td>-16%</td>
<td>-15%</td>
<td>-18%</td>
</tr>
<tr>
<td></td>
<td>Reduction rate for water consumption*1</td>
<td>All Kao Group plants and offices</td>
<td>-43%</td>
<td>-42%</td>
<td>-43%</td>
<td>-42%</td>
<td>-40%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Across the entire product lifecycle (Kao Group)</td>
<td>-21%</td>
<td>-17%</td>
<td>-19%</td>
<td>-21%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>During product use (Kao Group in Japan)</td>
<td>-24%</td>
<td>-22%</td>
<td>-24%</td>
<td>-24%</td>
</tr>
<tr>
<td></td>
<td>Reduction rate for the amount of generated waste and other unwanted materials*1</td>
<td>All Kao Group plants and offices</td>
<td>-27%</td>
<td>-25%</td>
<td>-25%</td>
<td>-26%</td>
<td>-33%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage of sales from products displaying the “eco together” logo*2</td>
<td>28%</td>
<td>29%</td>
<td>29%</td>
<td>29%</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Procurement of sustainable palm oil*3</td>
<td>PKO<em>3 Completed traceability to the mills</em>4</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>PKO<em>3 Completed traceability to the mills</em>4</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>PO<em>3 Completed traceability to the mills</em>4</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>PO<em>3 Completed traceability to the mills</em>4</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>Procurement rate for sustainable paper and pulp*5</td>
<td>96%</td>
<td>99%</td>
<td>100%</td>
<td>100%</td>
<td>—</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Promote further environmental activities by engaging in environmental communication with society</td>
<td>Cumulative number of participants in environmental communication*6</td>
<td>460</td>
<td>690</td>
<td>910</td>
<td>1,230</td>
<td>1,400</td>
</tr>
<tr>
<td></td>
<td>Aim to contribute to the realization of a sustainable society by promoting sound chemical management through Strategic Approach to International Chemicals Management (SAICM) activities</td>
<td>Number of released safety summaries for Kao priority risk assessment substances</td>
<td>7 (Total 7)</td>
<td>3 (Total 10)</td>
<td>3 (Total 13)</td>
<td>3 (Total 16)</td>
<td>3 (Total 19)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Number of released GPS safety summaries for chemical products</td>
<td>12 (Total 89)</td>
<td>18 (Total 107)</td>
<td>18 (Total 125)</td>
<td>16 (Total 141)</td>
</tr>
</tbody>
</table>

*1 Per unit of sales, relative to FY2005.
*2 Consumer products in Japan; sales rate of products that meet the criteria for “eco together” certification.
*4 As of the end of 2015, we were unable to establish the traceability of some of the derivatives that we had no choice but to purchase from other companies.
*5 Recycled and sustainable paper and pulp and packaging materials used in our products.
*6 Cumulative numbers of participants in educational programs, factory tours, environmental events, etc., since 2014.
*7 The goals to which the Kao Group can contribute among 17 Sustainable Development Goals.
*8 In line with the adjustment of the SDGs identified as corresponding to the key themes addressed by the Kirei Lifestyle Plan, the corresponding SDGs referred to in this table have also been revised.
### Community

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Vision</th>
<th>Items</th>
<th>Results</th>
<th>Targets</th>
<th>Results</th>
<th>Targets</th>
<th>SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>Improve and prevent obesity and lifestyle diseases by contributing to the creation of a society conducive to a healthy life</td>
<td>Number of participants in health educational programs*8 (thousands of people)</td>
<td>2,610</td>
<td>2,320</td>
<td>2,880</td>
<td>100</td>
<td>70</td>
</tr>
<tr>
<td>Hygiene</td>
<td>Prevent the spread of infectious diseases by contributing to the creation of a society conducive to a hygienic life</td>
<td>Number of participants in the educational programs of hygiene habits*9 (thousands of people)</td>
<td>7,690</td>
<td>7,670</td>
<td>8,420</td>
<td>7,360</td>
<td>8,890</td>
</tr>
<tr>
<td>Aging</td>
<td>Support the lifestyles of the elderly by contributing to the creation of a society conducive to healthy aging, both mentally and physically</td>
<td>Cumulative number of the products improved with Universal Design considerations*10</td>
<td>2,876</td>
<td>3,585</td>
<td>4,666</td>
<td>5,658</td>
<td>—</td>
</tr>
<tr>
<td>Partnership with the community</td>
<td>Engage in social activities with local communities to contribute to an improved quality of life</td>
<td>Number of times information was provided to employees regarding volunteer activities</td>
<td>71</td>
<td>67</td>
<td>50</td>
<td>33</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>Educational activities for external parties provided through transmitted information</td>
<td>99</td>
<td>59</td>
<td>60</td>
<td>50</td>
<td>80</td>
<td>92</td>
</tr>
</tbody>
</table>

*8 Number of participants in walking events and events for measuring visceral fat and teeth brushing education; QUPiO users; the QUPiO business was sold in April 2018, and accordingly, QUPiO users are not included in data for 2018.

*9 Number of participants in the educational programs for infant care, hand and hair washing, laundry and cleaning, and menstrual hygiene (including the delivery of educational samples and tools) in Japan and the rest of Asia; educational programs were added, so totals were recalculated retroactive to 2015.

*10 Products improved with Universal Design considerations represent products improved from considerations including accessibility, safety and usability. The implementation rate of improvements is the percentage of products improved with Universal Design considerations among all new and improved product items. The data until 2015 covers Japan, the data for 2016 covers Japan and the Americas, and the data from 2017 covers Japan, the Americas and Europe (not including salons and Molton Brown Ltd.).

### Corporate Culture

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Vision</th>
<th>Items</th>
<th>Results</th>
<th>Targets</th>
<th>Results</th>
<th>Targets</th>
<th>SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrity</td>
<td>Instillment of Integrity throughout the entire Kao Group</td>
<td>BCG test rate</td>
<td>96.4%</td>
<td>97.5%</td>
<td>97.1%</td>
<td>—</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Number of serious compliance violations<em>11</em>12</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Diversity and Inclusion</td>
<td>Maximize employee potential through Diversity and Inclusion</td>
<td>Percentage of female managers</td>
<td>27.5%</td>
<td>25.4%</td>
<td>25.1%</td>
<td>27.3%</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage of female managers (Japan)</td>
<td>10.4%</td>
<td>13.1%</td>
<td>14.6%</td>
<td>18.4%</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cumulative attendance rate for manager training on diversity and increasing management capabilities</td>
<td>—</td>
<td>8.2%</td>
<td>55.7%</td>
<td>94.0%</td>
<td>200%</td>
</tr>
<tr>
<td>Employee health and safe workplaces</td>
<td>Improvement of health literacy and safety awareness among employees</td>
<td>Total participants for health promotion programs</td>
<td>—</td>
<td>31,885</td>
<td>36,259</td>
<td>40,768</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lost time accident frequency rate*16</td>
<td>0.61</td>
<td>0.67</td>
<td>0.55</td>
<td>0.77</td>
<td>0.16</td>
</tr>
</tbody>
</table>

*11 This was implemented starting from 2019 in Japan, and starting the following year outside Japan. In 2018, it was only implemented in Japan.

*12 The term “serious compliance violations” is used to refer to compliance violations that seriously impact the company’s operations or cause a serious loss of corporate value.

*13 The definition of “manager” was revised in 2016 following the promotion of integrated Group management.

*14 Not established as targets for 2020, but targets to be quickly realized as future milestones.

*15 Cumulative attendance rates for manager training since 2016.

*16 Number of persons dead or seriously injured in occupational accidents per million hours worked (including only accidents involving at least one lost work day and also the loss of a part of the body or a bodily function).

*17 Not implemented in 2018 due to a review of BCG activities.
### Financial Data

#### Historical Data

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For the year:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Value Added (EVA®)</td>
<td>87,403</td>
<td>93,530</td>
<td>90,394</td>
<td>73,357</td>
<td>58,557</td>
</tr>
<tr>
<td>Net sales</td>
<td>1,502,241</td>
<td>1,508,007</td>
<td>1,489,421</td>
<td>1,457,610</td>
<td>1,474,550</td>
</tr>
<tr>
<td>Operating income</td>
<td>211,723</td>
<td>207,703</td>
<td>204,791</td>
<td>185,571</td>
<td>167,318</td>
</tr>
<tr>
<td>(% of sales)</td>
<td>14.1</td>
<td>13.8</td>
<td>13.7</td>
<td>12.7</td>
<td>11.3</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>210,645</td>
<td>207,251</td>
<td>204,290</td>
<td>183,430</td>
<td>166,038</td>
</tr>
<tr>
<td>Net income</td>
<td>150,349</td>
<td>155,331</td>
<td>148,607</td>
<td>127,889</td>
<td>105,952</td>
</tr>
<tr>
<td>Net income attributable to owners of the parent</td>
<td>148,213</td>
<td>153,698</td>
<td>147,010</td>
<td>126,551</td>
<td>105,196</td>
</tr>
<tr>
<td>Net cash flows from operating activities</td>
<td>244,523</td>
<td>195,610</td>
<td>185,845</td>
<td>184,307</td>
<td>181,672</td>
</tr>
<tr>
<td>Net cash flows from investing activities</td>
<td>(94,526)</td>
<td>(157,895)</td>
<td>(96,146)</td>
<td>(88,639)</td>
<td>(74,124)</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>128,539</td>
<td>37,715</td>
<td>89,699</td>
<td>95,668</td>
<td>107,548</td>
</tr>
<tr>
<td>Net cash flows from financing activities</td>
<td>(126,166)</td>
<td>(108,579)</td>
<td>(53,244)</td>
<td>(95,043)</td>
<td>(20,773)</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>113,387</td>
<td>89,097</td>
<td>79,355</td>
<td>89,900</td>
<td>82,848</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>83,369</td>
<td>60,662</td>
<td>54,508</td>
<td>51,116</td>
<td>57,423</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>59,143</td>
<td>57,673</td>
<td>56,703</td>
<td>54,567</td>
<td>52,699</td>
</tr>
<tr>
<td>(% of sales)</td>
<td>3.9</td>
<td>3.8</td>
<td>3.8</td>
<td>3.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Advertising</td>
<td>77,545</td>
<td>80,274</td>
<td>89,935</td>
<td>97,437</td>
<td>94,745</td>
</tr>
<tr>
<td>(% of sales)</td>
<td>5.2</td>
<td>5.3</td>
<td>6.0</td>
<td>6.7</td>
<td>6.4</td>
</tr>
<tr>
<td><strong>At year end:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>1,653,919</td>
<td>1,460,986</td>
<td>1,427,375</td>
<td>1,338,309</td>
<td>1,311,064</td>
</tr>
<tr>
<td>Equity attributable to owners of the parent</td>
<td>857,695</td>
<td>822,360</td>
<td>806,381</td>
<td>679,842</td>
<td>680,996</td>
</tr>
<tr>
<td>Ratio of equity attributable to owners of the parent to total assets (%)</td>
<td>51.9</td>
<td>56.3</td>
<td>56.5</td>
<td>50.8</td>
<td>51.9</td>
</tr>
<tr>
<td>Number of employees (people)</td>
<td>33,603</td>
<td>33,664</td>
<td>33,560</td>
<td>33,195</td>
<td>32,282</td>
</tr>
<tr>
<td><strong>Per share:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic earnings per share (EPS) (yen)</td>
<td>306.70</td>
<td>314.25</td>
<td>298.30</td>
<td>253.43</td>
<td>209.82</td>
</tr>
<tr>
<td>Annual cash dividends per share (yen)</td>
<td>130.00</td>
<td>120.00</td>
<td>110.00</td>
<td>94.00</td>
<td>80.00</td>
</tr>
<tr>
<td>Number of issued shares, including treasury shares, at the end of the year (in thousands of shares)</td>
<td>482,000</td>
<td>488,700</td>
<td>495,000</td>
<td>504,000</td>
<td>504,000</td>
</tr>
<tr>
<td>Share price at the end of the year (yen)</td>
<td>9,025</td>
<td>8,154</td>
<td>7,619</td>
<td>5,541</td>
<td>6,255</td>
</tr>
<tr>
<td><strong>Key financial ratios:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio of net income to equity attributable to owners of the parent (ROE) (%)</td>
<td>17.6</td>
<td>18.9</td>
<td>19.8</td>
<td>18.6</td>
<td>16.1</td>
</tr>
<tr>
<td>Ratio of income before income taxes to total assets (ROA) (%)</td>
<td>13.5</td>
<td>14.4</td>
<td>14.8</td>
<td>13.8</td>
<td>13.1</td>
</tr>
</tbody>
</table>

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. In FY2019, cash flows from operating activities is adjusted for depreciation of right-of-use assets.
3. Capital expenditures include investments in property, plant and equipment, intangible assets, and other non-current assets.
4. EVA® is a registered trademark of Stern Stewart & Co.
### Japanese GAAP

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>For the year:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td>1,471,791</td>
<td>1,401,707</td>
<td>1,315,217</td>
<td>1,220,359</td>
<td>1,012,595</td>
<td>1,216,096</td>
<td>1,186,831</td>
</tr>
<tr>
<td><strong>Business segments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beauty Care Business</td>
<td>660,789</td>
<td>589,907</td>
<td>570,268</td>
<td>537,814</td>
<td>444,425</td>
<td>537,938</td>
<td>533,514</td>
</tr>
<tr>
<td>Human Health Care Business</td>
<td>280,723</td>
<td>240,077</td>
<td>210,628</td>
<td>189,614</td>
<td>151,977</td>
<td>181,758</td>
<td>175,761</td>
</tr>
<tr>
<td>Fabric and Home Care Business</td>
<td>334,416</td>
<td>324,505</td>
<td>311,023</td>
<td>291,988</td>
<td>236,748</td>
<td>285,645</td>
<td>279,008</td>
</tr>
<tr>
<td>Consumer Products Business</td>
<td>1,222,831</td>
<td>1,154,489</td>
<td>1,091,919</td>
<td>1,019,416</td>
<td>833,150</td>
<td>1,005,341</td>
<td>988,283</td>
</tr>
<tr>
<td>Chemical Business</td>
<td>288,456</td>
<td>288,022</td>
<td>261,192</td>
<td>236,473</td>
<td>208,071</td>
<td>247,635</td>
<td>231,997</td>
</tr>
<tr>
<td>Eliminations</td>
<td>(39,496)</td>
<td>(40,804)</td>
<td>(37,894)</td>
<td>(35,530)</td>
<td>(28,626)</td>
<td>(36,880)</td>
<td>(33,449)</td>
</tr>
<tr>
<td><strong>Geographic areas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>1,019,016</td>
<td>997,309</td>
<td>959,405</td>
<td>933,767</td>
<td>720,789</td>
<td>925,339</td>
<td>912,443</td>
</tr>
<tr>
<td>Asia</td>
<td>281,533</td>
<td>244,903</td>
<td>199,655</td>
<td>160,005</td>
<td>159,857</td>
<td>173,588</td>
<td>152,361</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Americas</td>
<td>137,827</td>
<td>124,216</td>
<td>108,599</td>
<td>89,998</td>
<td>89,998</td>
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</tr>
<tr>
<td>North America</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>154,350</td>
<td>152,056</td>
<td>134,168</td>
<td>110,519</td>
<td>117,005</td>
<td>112,123</td>
<td></td>
</tr>
<tr>
<td>Eliminations</td>
<td>(120,935)</td>
<td>(116,777)</td>
<td>(86,610)</td>
<td>(73,930)</td>
<td>(85,233)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>164,380</td>
<td>133,270</td>
<td>124,656</td>
<td>111,791</td>
<td>101,567</td>
<td>104,591</td>
<td></td>
</tr>
<tr>
<td><strong>Net income attributable to owners of the parent</strong></td>
<td>98,862</td>
<td>79,590</td>
<td>64,764</td>
<td>53,107</td>
<td>52,765</td>
<td>46,738</td>
<td></td>
</tr>
<tr>
<td><strong>Capital expenditures</strong></td>
<td>83,414</td>
<td>68,484</td>
<td>63,687</td>
<td></td>
<td>41,929</td>
<td>47,178</td>
<td>49,101</td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
<td>73,623</td>
<td>79,660</td>
<td>77,297</td>
<td>59,788</td>
<td>79,798</td>
<td>81,380</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows</strong></td>
<td>135,394</td>
<td>125,436</td>
<td>109,497</td>
<td></td>
<td>80,200</td>
<td>101,960</td>
<td>90,298</td>
</tr>
<tr>
<td><strong>Research and development expenses</strong></td>
<td>51,987</td>
<td>51,739</td>
<td>49,650</td>
<td>37,493</td>
<td>48,171</td>
<td>45,516</td>
<td></td>
</tr>
<tr>
<td>(% of sales)</td>
<td>3.5</td>
<td>3.7</td>
<td>3.8</td>
<td></td>
<td>3.7</td>
<td>4.0</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Advertising</strong></td>
<td>94,496</td>
<td>92,410</td>
<td>86,406</td>
<td></td>
<td>67,045</td>
<td>82,209</td>
<td>81,082</td>
</tr>
<tr>
<td>(% of sales)</td>
<td>6.4</td>
<td>6.6</td>
<td>6.6</td>
<td></td>
<td>6.6</td>
<td>6.8</td>
<td>6.8</td>
</tr>
<tr>
<td><strong>At year end:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>1,281,869</td>
<td>1,198,233</td>
<td>1,133,276</td>
<td></td>
<td>1,030,347</td>
<td>991,272</td>
<td>1,022,799</td>
</tr>
<tr>
<td>Net worth</td>
<td>675,608</td>
<td>668,232</td>
<td>628,709</td>
<td></td>
<td>582,699</td>
<td>538,030</td>
<td>528,895</td>
</tr>
<tr>
<td>Number of employees (people)</td>
<td>33,026</td>
<td>32,707</td>
<td>33,054</td>
<td>33,350</td>
<td>34,069</td>
<td>34,743</td>
<td></td>
</tr>
<tr>
<td><strong>Per share:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income per share (EPS) (yen)</td>
<td>197.19</td>
<td>156.46</td>
<td>126.03</td>
<td>101.77</td>
<td>101.12</td>
<td>87.69</td>
<td></td>
</tr>
<tr>
<td>Annual cash dividends per share (yen)</td>
<td>80.00</td>
<td>70.00</td>
<td>64.00</td>
<td>62.00</td>
<td>60.00</td>
<td>58.00</td>
<td></td>
</tr>
<tr>
<td>Net worth (yen)</td>
<td>1,347.29</td>
<td>1,313.63</td>
<td>1,227.54</td>
<td></td>
<td>1,116.61</td>
<td>1,031.08</td>
<td>1,013.05</td>
</tr>
<tr>
<td>Weighted average number of shares outstanding during the period (in thousands of shares)</td>
<td>501,352</td>
<td>508,687</td>
<td>513,880</td>
<td>521,824</td>
<td>521,936</td>
<td>532,980</td>
<td></td>
</tr>
</tbody>
</table>

**Key financial ratios:**

- Return on sales (%): 6.7, 5.7, 4.9, 4.4, 5.2, 4.3, 3.9
- Return on equity (ROE) (%): 14.8, 12.4, 10.7, 9.5, 9.4, 9.8, 8.5
- Net worth ratio (%): 52.7, 54.9, 55.5, 56.6, 54.3, 51.7

1. Starting from the year ended December 31, 2012, Kao Corporation’s fiscal year end was changed from March 31 to December 31. Due to this change, the term of consolidation for the fiscal period ended December 31, 2012 consists of the 9 months from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the 12 months from January to December for subsidiaries whose fiscal year end was December 31.
2. December 2012 (restated) represents figures for the year from January 1 to December 31, 2012, for Kao Group companies whose fiscal year end was previously March 31.
3. As of January 2014, certain changes were made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe.
4. Australia and New Zealand, which had been included in Asia and Oceania until the fiscal year ended March 31, 2012, were reclassified under Americas from the fiscal period ended December 31, 2012.
5. Net sales by segment include inter-segment sales and transfers.
6. Net sales by geographic area including inter-region sales are classified based on the location of Kao Group companies.
7. Cash flows are defined as net income attributable to owners of the parent plus depreciation and amortization minus cash dividends.
8. Net income per share is computed based on the weighted average number of shares outstanding during the respective years.
9. Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.
10. Net worth is equity, excluding non-controlling interests and stock acquisition rights.
## Financial Data

### Consolidated Statement of Financial Position

(Millions of yen)

<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><strong>Current 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>Trade and other receivables</td>
<td>208,839</td>
<td>223,102</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>2,066</td>
</tr>
<tr>
<td>Other current assets</td>
<td>22,606</td>
<td>22,449</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>Right-of-use assets</td>
<td>164,822</td>
<td>–</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>7,911</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>25,104</td>
<td>23,540</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>47,876</td>
<td>–</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>5,496</td>
<td>8,275</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>916,893</td>
<td>734,674</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,653,919</td>
<td>1,460,986</td>
</tr>
<tr>
<td><strong>Liabilities and equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>222,314</td>
<td>225,560</td>
</tr>
<tr>
<td>Bonds and borrowings</td>
<td>25,505</td>
<td>40,488</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>19,653</td>
<td>–</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>6,766</td>
<td>6,880</td>
</tr>
<tr>
<td>Income tax payables</td>
<td>36,208</td>
<td>34,198</td>
</tr>
<tr>
<td>Provisions</td>
<td>2,054</td>
<td>2,873</td>
</tr>
<tr>
<td>Contract liabilities</td>
<td>20,616</td>
<td>18,387</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>99,411</td>
<td>102,452</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>432,527</td>
<td>430,838</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds and borrowings</td>
<td>101,636</td>
<td>80,339</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>141,438</td>
<td>–</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>7,527</td>
<td>9,506</td>
</tr>
<tr>
<td>Retirement benefit liabilities</td>
<td>80,579</td>
<td>84,552</td>
</tr>
<tr>
<td>Provisions</td>
<td>10,122</td>
<td>12,175</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>3,747</td>
<td>2,864</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>4,922</td>
<td>5,203</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>349,971</td>
<td>194,639</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>782,498</td>
<td>625,477</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>85,424</td>
<td>85,424</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>108,715</td>
<td>108,245</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>(4,309)</td>
<td>(11,282)</td>
</tr>
<tr>
<td>Other components of equity</td>
<td>(32,974)</td>
<td>(30,029)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>700,839</td>
<td>670,002</td>
</tr>
<tr>
<td>Equity attributable to owners of the parent</td>
<td>857,695</td>
<td>822,360</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>13,726</td>
<td>13,149</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>871,421</td>
<td>835,509</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>1,653,919</td>
<td>1,460,986</td>
</tr>
</tbody>
</table>
## Consolidated Statement of Income

### Current fiscal year (January 1, 2019 – December 31, 2019)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>1,502,241</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(848,723)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>653,518</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(442,912)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>15,192</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(14,075)</td>
</tr>
<tr>
<td>Operating income</td>
<td>211,723</td>
</tr>
<tr>
<td>Financial income</td>
<td>2,027</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(5,231)</td>
</tr>
<tr>
<td>Share of profit in investments accounted for using the equity method</td>
<td>2,126</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>210,645</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(60,296)</td>
</tr>
<tr>
<td>Net income</td>
<td>150,349</td>
</tr>
</tbody>
</table>

### Attributable to:

- Owners of the parent: 148,213
- Non-controlling interests: 2,136
- Net income: 150,349

### Earnings per share

- Basic earnings per share (Yen): 306.70
- Diluted earnings per share (Yen): 306.63

## Consolidated Statement of Comprehensive Income

### Current fiscal year (January 1, 2019 – December 31, 2019)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>150,349</td>
</tr>
</tbody>
</table>

### Other comprehensive income

- Items that will not be reclassified to profit or loss:
  - Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income: (6)
  - Remeasurements of defined benefit plans: (1,180)
  - Share of other comprehensive income of investments accounted for using the equity method: (17)
  - Total of items that will not be reclassified to profit or loss: (1,203)

- Items that may be reclassified subsequently to profit or loss:
  - Exchange differences on translation of foreign operations: (2,489)
  - Share of other comprehensive income of investments accounted for using the equity method: (36)
  - Total of items that may be reclassified subsequently to profit or loss: (2,525)

- Other comprehensive income, net of taxes: (3,728)

### Comprehensive income

- 146,621

### Comprehensive income attributable to:

- Owners of the parent: 144,508
- Non-controlling interests: 2,113
- Comprehensive income: 146,621
# Consolidated Statement of Changes in Equity

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

<table>
<thead>
<tr>
<th>Equity attributable to owners of the parent</th>
<th>(Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>85,424</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>108,245</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>(11,282)</td>
</tr>
<tr>
<td>Other components of equity</td>
<td></td>
</tr>
<tr>
<td>Subscription rights to shares</td>
<td>546</td>
</tr>
<tr>
<td>Exchange differences on translation of foreign operations</td>
<td>(37,032)</td>
</tr>
<tr>
<td>Net gain (loss) on derivatives designated as cash flow hedges</td>
<td>(1)</td>
</tr>
<tr>
<td>January 1, 2019 (as previously reported)</td>
<td></td>
</tr>
<tr>
<td>Changes in accounting policy*</td>
<td></td>
</tr>
<tr>
<td>January 1, 2019 (after adjustment)</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
</tr>
<tr>
<td>Comprehensive income</td>
<td></td>
</tr>
<tr>
<td>Disposal of treasury shares</td>
<td></td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td></td>
</tr>
<tr>
<td>Share-based payment transactions</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
</tr>
<tr>
<td>Changes in the ownership interest in subsidiaries</td>
<td></td>
</tr>
<tr>
<td>Transfer from other components of equity to retained earnings</td>
<td></td>
</tr>
<tr>
<td>Total transactions with the owners</td>
<td></td>
</tr>
<tr>
<td>December 31, 2019</td>
<td>85,424</td>
</tr>
<tr>
<td>108,715</td>
<td></td>
</tr>
<tr>
<td>(4,300)</td>
<td></td>
</tr>
<tr>
<td>448</td>
<td></td>
</tr>
<tr>
<td>(39,630)</td>
<td></td>
</tr>
</tbody>
</table>

### Notes:
- **January 1, 2019 (as previously reported):**
- **January 1, 2019 (after adjustment):**
- **Changes in accounting policy*:**
  - It represents the financial effect from the adoption of IFRS 16 “Leases.”
### Previous fiscal year (January 1, 2018—December 31, 2018)

<table>
<thead>
<tr>
<th></th>
<th>Equity attributable to owners of the parent</th>
<th>Other components of equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Share capital</td>
<td>Capital surplus</td>
</tr>
<tr>
<td><strong>January 1, 2018</strong></td>
<td>85,424</td>
<td>107,980</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Comprehensive income</strong></td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Disposal of treasury shares</strong></td>
<td>—</td>
<td>(99)</td>
</tr>
<tr>
<td><strong>Purchase of treasury shares</strong></td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Share-based payment transactions</strong></td>
<td>—</td>
<td>364</td>
</tr>
<tr>
<td><strong>Dividends</strong></td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Transfer from other components of equity to retained earnings</strong></td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Other increase (decrease)</strong></td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total transactions with the owners</strong></td>
<td>—</td>
<td>265</td>
</tr>
<tr>
<td><strong>December 31, 2018</strong></td>
<td>85,424</td>
<td>108,245</td>
</tr>
</tbody>
</table>
# 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>60,662</td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>(1,885)</td>
<td>(1,578)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>2,840</td>
<td>1,256</td>
</tr>
<tr>
<td>Share of profit in investments accounted for using the equity method</td>
<td>(2,126)</td>
<td>(2,082)</td>
</tr>
<tr>
<td>(Gains) losses 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>(3,788)</td>
<td>20,740</td>
</tr>
<tr>
<td>Other</td>
<td>(2,936)</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><strong>Income taxes paid</strong></td>
<td>(56,680)</td>
<td>(51,708)</td>
</tr>
<tr>
<td>Net cash flows from operating activities</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>(73,915)</td>
</tr>
<tr>
<td>Other</td>
<td>(1,765)</td>
<td>3,799</td>
</tr>
<tr>
<td><strong>Net cash flows from investing activities</strong></td>
<td>(94,266)</td>
<td>(157,895)</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>Repayments of long-term borrowings</td>
<td>(40,054)</td>
<td>(67)</td>
</tr>
<tr>
<td>Proceeds from issuance of bonds</td>
<td>—</td>
<td>25,060</td>
</tr>
<tr>
<td>Redemption of bonds</td>
<td>(12)</td>
<td>(24,939)</td>
</tr>
<tr>
<td>Repayments of lease liabilities</td>
<td>(20,565)</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>(50,033)</td>
<td>(50,035)</td>
</tr>
<tr>
<td>Dividends paid to owners of the parent</td>
<td>(60,512)</td>
<td>(56,838)</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>(108,579)</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents</strong></td>
<td>24,091</td>
<td>(70,864)</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>265,978</td>
<td>343,076</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>
Chapter 5
Corporate Governance

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
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.
I have been attending Board of Directors meetings as an Outside Director since March 2019. I have also been given opportunities to participate in internal research presentations and other briefings at Kao, and have opportunities to talk directly with Executive Officers, middle managers and younger employees engaged in planning, research and others as needed. Through these opportunities, I have been able to obtain a large amount of information that will be very useful in considering long-term strategy. In addition, the Outside Director serving as chairman of the Board of Directors clearly and concisely communicates the background to the agenda based on information specific to Kao obtained in advance in Management Committee meetings, visits to worksites and the like, and this makes it easier for us Outside Directors to participate in the core discussions. We held multiple discussions on the ESG Strategy, the Kirei Lifestyle Plan at Board of Directors meetings in FY2019. Kao has products that are beneficial in various settings in daily life. I would like to see Kao firmly establish the Kirei Lifestyle Plan internally the way the Kao Way has become established, and use its total product strengths to spread Kao-style “Kirei” around the world.

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.
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 our 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 an investment for the future, not as a cost, and are promoting them. We consider good corporate governance as a prerequisite and a driving force for strongly promoting the achievement of such a goal. Our basic stance on initiatives related to corporate governance is to set up and operate a management structure and an internal control system, timely implement the necessary initiatives and achieve accountability so that we can swiftly respond to changes, realize efficient management that is sound, fair and highly transparent, and continuously enhance corporate value. We view accomplishing such tasks as one of our most important management issues. We have been actively engaging in activities to listen to stakeholders’ voices and based on input from stakeholders and social trends, we conduct reviews of our corporate governance and implement the necessary initiatives and improvements, as needed, in an appropriate manner.

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.
Evolution of Kao’s corporate governance

- **Committee for the Examination of Nominees for Directors**
  - 2003: Established the Committee for the Examination of Nominees for Chairman of the Board and the President and Chief Executive Officer
  - 2015: Established the Committee for the Examination of Nominees for Directors

- **Board of Directors**
  - 1999: 2
  - 2000: 2
  - 2002: 3
  - 2004: 3
  - 2006: 2
  - 2012: 3
  - 2014: 3
  - 2016: 3
  - 2019: 4

- **Audit & Supervisory Board Members**
  - 1999: 2
  - 2001: 2
  - 2013: 3

- **Evaluation of the effectiveness**
  - 2016: Evaluation of the effectiveness of the Audit & Supervisory Board
  - 2019: Evaluation of the effectiveness of the Committee for the Examination of Nominees for Directors and the Compensation Advisory Committee

- **Compensation Advisory Committee**
  - 2003: Established the Compensation Advisory Committee
  - 2015: Participation of Outside Audit & Supervisory Board Members

- **Short-term incentive compensation**
  - 2000: Introduced an EVA® performance-based bonus
  - 2006: Introduced EVA®/sales and ordinary income indicators

- **Mid- to long-term incentive compensation**
  - 2001: Introduced a stock option plan
  - 2006: Introduced share remuneration type stock options
  - 2017: Introduced performance-based share incentive plan
  - 2016: Revised the Outside Director compensation system to not link to business performance

- **Execution system**
  - 2002: Introduced the Executive Officer system
  - 2003: Appointed the president and lower positions as Executive Officers
  - 2003: Established the Department of Internal Audit
  - 2006: Established the Internal Control Committee
  - 2010: Established the Sustainability Committee
  - 2018: Established the ESG Committee
  - 2019: Established the ESG External Advisory Board

**Timeline**
- 1999–2002
- 2003
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
- 2017
- 2018
- 2019
- 2020
**Corporate Governance Structure**

**Shareholders Meeting**

1. **Audit & Supervisory Board**
   - 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 as well as supervises the execution of business by Directors.

3. **Management Committee**
   - Makes decisions relating to the execution of the mid- to long-term direction and strategies as principal members with 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.

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

5. **Compensation Advisory Committee for Directors and Executive Officers**
   - Comprising all Representative Directors, all Outside Directors and all Outside Audit & Supervisory Board Members, examine and deliberate the compensation system and standards for Directors and Executive Officers, and submit their opinions to the Board of Directors.

6. **ESG Committee**
   - To gain 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 and society.

7. **Department of Internal Audit**
   - Conducts internal audits on management activities in general from the perspective of comply with laws and regulations, the appropriateness of financial reporting, and administrative effectiveness and efficiency. It also regularly makes reports to the Management Committee and the Board of Directors.

8. **ESG External Advisory Board**
   - 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.
## Attending Members for Meetings of the Board of Directors, the Audit & Supervisory Board and Other Committees

<table>
<thead>
<tr>
<th>Name</th>
<th>Board of Directors</th>
<th>Audit &amp; Supervisory Board</th>
<th>Committee for the Examination of Nominees for Directors</th>
<th>Compensation Advisory Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michitaka Sawada</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Toshiaki Takeuchi</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Yoshihiro Hasebe</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Tomoharu Matsuda</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Sonosuke Kadonaga (Outside/Independent)</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Osamu Shinobe (Outside/Independent)</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Chiaki Mukai (Outside/Independent)</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Nobuhide Hayashi (Outside/Independent)</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
</tbody>
</table>

(13 persons) (5 persons) (7 persons) (10 persons)

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Reason for appointment</th>
<th>Attendance in FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sonosuke Kadonaga</td>
<td>He has a high level of insight related to international corporate management gleaned 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.</td>
<td>14/14 —</td>
</tr>
<tr>
<td>Osamu Shinobe</td>
<td>He has a considerable experience and expertise in relation to global corporate management and risk management able to meet changing needs in the business environment, including involvement for many years in the maintenance division 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.</td>
<td>14/14 —</td>
</tr>
<tr>
<td>Chiaki Mukai</td>
<td>As an astronaut and a doctor, she has high level of expertise in the scientific fields, and at 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.</td>
<td>12/12* —</td>
</tr>
<tr>
<td>Nobuhide Hayashi</td>
<td>He 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 global business environment, and offers valuable opinions and suggestions on matters material to our group management.</td>
<td>12/12* —</td>
</tr>
<tr>
<td>Hideki Amano</td>
<td>He has expertise as a certified public accountant and experience serving as chief auditor for large companies with overseas operations at a leading auditing firm, and has a high level of insight pertaining to global management gained from his experience serving as a member of the steering committee of a leading international auditing firm aligned with that auditing firm.</td>
<td>14/14 8/8</td>
</tr>
<tr>
<td>Nobuhiro Oka</td>
<td>As a lawyer, he has expert insights and considerable experience in corporate legal affairs and corporate governance, and has a high level of insight into our group’s business from serving as an Audit &amp; Supervisory Board Member of principle subsidiary since 2014.</td>
<td>14/14 8/8</td>
</tr>
<tr>
<td>Takahiro Nakazawa</td>
<td>He has expertise as a certified public accountant and has been involved in auditing work for large companies at a leading auditing firm, and has a high level of insight pertaining to governance and internal controls at global companies, including from advisory work relating to the introduction of U.S. accounting standards and International Financial Reporting Standards (IFRS).</td>
<td>— ** —</td>
</tr>
</tbody>
</table>

* The Board of Directors met 14 times in FY2019, and the Audit & Supervisory Board met 8 times. There have been 12 meetings of the Board of Directors since the appointments of Ms. Mukai and Mr. Hayashi.

** Mr. Nakazawa was appointed in March 2020, and therefore has no attendance recorded for FY2019.
**Board of Directors**

Topics

<table>
<thead>
<tr>
<th>Major topics discussed by the Board of Directors in FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Quarter</strong></td>
</tr>
<tr>
<td>● Revision of Business Conduct Guidelines</td>
</tr>
<tr>
<td>● Evaluation of the effectiveness of the Board of Directors</td>
</tr>
<tr>
<td>● ESG Strategy</td>
</tr>
<tr>
<td>● Department of Internal Audit semi-annual reports</td>
</tr>
<tr>
<td>● Audit &amp; Supervisory Board Members’ audit report summaries</td>
</tr>
<tr>
<td>● Overseas IR roadshow reports</td>
</tr>
<tr>
<td><strong>Second Quarter</strong></td>
</tr>
<tr>
<td>● ESG Strategy</td>
</tr>
<tr>
<td>● Mid- to long-term strategy</td>
</tr>
<tr>
<td>● Current status of Research &amp; Development and topics</td>
</tr>
<tr>
<td>● Compliance Committee annual reports</td>
</tr>
<tr>
<td><strong>Third Quarter</strong></td>
</tr>
<tr>
<td>● Cosmetics Business strategy</td>
</tr>
<tr>
<td>● ESG Strategy</td>
</tr>
<tr>
<td>● Advanced Digital Technology strategy</td>
</tr>
<tr>
<td>● Department of Internal Audit semi-annual reports</td>
</tr>
<tr>
<td>● Human capital development strategy</td>
</tr>
<tr>
<td><strong>Fourth Quarter</strong></td>
</tr>
<tr>
<td>● Research &amp; Development progress report</td>
</tr>
<tr>
<td>● ESG Strategy</td>
</tr>
<tr>
<td>● Internal Control Committee activities report</td>
</tr>
<tr>
<td>● Cross-shareholdings status report</td>
</tr>
<tr>
<td>● Feedback the questionnaire results</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**

1. Questionnaire to all Directors and all Audit & Supervisory Board Members
2. Feedback the questionnaire results
3. Discussion and opinion exchange at the Board of Directors
4. Identify issues based on the evaluation results
5. Ongoing activities to resolve issues

**FY2019 evaluation of Board of Directors’ effectiveness**

**Evaluation and efforts to address issues pointed out in the previous fiscal year and future issues**

**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 worksites 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 M&A 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

<table>
<thead>
<tr>
<th>Current status</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Audit &amp; 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.</td>
</tr>
<tr>
<td>● Full-time Audit &amp; 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 &amp; 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 &amp; Supervisory Board Members provide suggestions as necessary.</td>
</tr>
<tr>
<td>● Audit &amp; Supervisory Board Members engage in frank exchanges of opinions based on their respective experience and specialization, and the Audit &amp; Supervisory Board functions effectively overall.</td>
</tr>
<tr>
<td>● Opportunities are also provided at Board of Directors meetings to comment on the activities of the Audit &amp; Supervisory Board.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take the following steps to respond flexibly and appropriately to changes in the business environment and to business expansion.</td>
</tr>
<tr>
<td>● Make proactive suggestions to ensure effectiveness and efficiency in terms of both the maintenance and operation of internal controls globally.</td>
</tr>
<tr>
<td>● Enhance framework to achieve more effective functionality for Audit &amp; Supervisory Board Members of subsidiaries.</td>
</tr>
<tr>
<td>● Continue to consider how to proceed with audits.</td>
</tr>
</tbody>
</table>

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

<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></td>
<td></td>
<td>Base salary</td>
<td>Bonus</td>
</tr>
<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</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.*

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

<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>Michitaka 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

Having members of management go out themselves to markets, worksite, plants and retail stores and build their knowledge of local sites is part of Kao’s DNA. To achieve sustainable and profitable growth, we visit local sites each year together with Outside Directors and Outside Audit & Supervisory Board Members and strive to improve effectiveness through dialogue.

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.
Compliance

Basic Philosophy

Kao regards Integrity, the value inherited from its founder, as the starting point of its compliance activities. We strive to thoroughly ensure compliance mainly by instilling the Kao Business Conduct Guidelines (BCG), which is our code of conduct. Viewing the fostering of individual employees’ compliance awareness as the foundation 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.

WEB

Kao Business Conduct Guidelines (BCG)

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

Initiatives to Enhance Compliance

<table>
<thead>
<tr>
<th>Year</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>Establishment/revision of Guidelines Concerning Business Entertainment, Business Gifts and Monetary Offerings for Celebrations or Condolences</td>
</tr>
<tr>
<td>2000</td>
<td>Establishment/revision of Guidelines for Offering Benefits to Government Officials</td>
</tr>
<tr>
<td>2000−2002</td>
<td>Establishment/revision of Conduct Principles</td>
</tr>
<tr>
<td>2001</td>
<td>Establishment/revision of Guidelines for Avoiding Conflicts of Interest</td>
</tr>
<tr>
<td>2003</td>
<td>Establishment of Anti-Bribery (Anti-Corruption) Guidelines</td>
</tr>
<tr>
<td>2004</td>
<td>Establishment/revision of Kao Business Conduct Guidelines (BCG)</td>
</tr>
<tr>
<td>2005</td>
<td>Corporate Ethics Committee</td>
</tr>
<tr>
<td>2006−2008</td>
<td>Senior manager development (Asia)</td>
</tr>
<tr>
<td>2006−2008</td>
<td>Establishment of Compliance Hotline</td>
</tr>
<tr>
<td>2007</td>
<td>Distribution of Integrity Cards (Cards with compliance hotline information)</td>
</tr>
<tr>
<td>2008−2009</td>
<td>Establishment of Compliance Hotline (Since 2000 in Japan, 2007 in Europe and the Americas and 2008 in Asia)</td>
</tr>
<tr>
<td>2012</td>
<td>Refresher training for managers every three years (outside Japan)</td>
</tr>
<tr>
<td>2013</td>
<td>BCG refresher test</td>
</tr>
<tr>
<td>2014</td>
<td>Activities to solicit employee opinion</td>
</tr>
<tr>
<td>2015</td>
<td>Establishment of Rules for Operating Compliance Hotlines</td>
</tr>
<tr>
<td>2016</td>
<td>Compliance Awareness Month</td>
</tr>
<tr>
<td>2017</td>
<td>Transitioned to risk surveys</td>
</tr>
<tr>
<td>2018</td>
<td>Activities to solicit employee opinion</td>
</tr>
<tr>
<td>2019</td>
<td>Establishment of Rules for Operating Compliance Hotlines</td>
</tr>
<tr>
<td>2020</td>
<td>Compliance Awareness Survey</td>
</tr>
</tbody>
</table>

* Activities throughout the Kao Group within and outside Japan, unless the region is noted.
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.

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.

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.
Directors and Audit & Supervisory Board Members
(As of March 25, 2020)

Takahiro Nakazawa
Outside Audit & Supervisory Board Member

Hideko Aoki
Full-time Audit & Supervisory Board Member

Yoshihiro Hasebe
Representative Director, Senior Managing Executive Officer

Hideki Amano
Outside Audit & Supervisory Board Member

Michitaka Sawada
Representative Director, President and Chief Executive Officer

Sonosuke Kadonaga
Outside Director, Chairman of the Board of Directors

Nobuhide Hayashi
Outside Director
Directors and Audit & Supervisory Board Members
(As of March 25, 2020)

Directors

Michitaka Sawada (Date of birth: Dec. 20, 1955)
Representative Director, President and Chief Executive Officer

Apr. 1981 Joined Kao Corporation
Mar. 2006 Vice President, Sanitary Products Research Laboratories
Jun. 2006 Vice President, Global Research & Development, Executive Officer
Apr. 2007 Vice President, Global Research & Development, Human Health Care
Jun. 2008 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 (Date of birth: Mar. 22, 1959)
Representative Director, Senior Managing Executive Officer

Apr. 1981 Joined Kao Corporation
Mar. 2006 Vice President, Kyushu Office, Kao Customer Marketing Co., Ltd.
Mar. 2009 Vice President, Corporate Planning, 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.
May 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
Jan. 2016 Representative Director, President, Kao Group Customer Marketing Co., Ltd.; Representative Director, Senior Managing Executive Officer (current)

Yoshihiro Hasebe (Date of birth: Jul. 30, 1960)
Representative Director, Senior Managing Executive Officer

Apr. 1990 Joined Kao Corporation
Mar. 2008 Director, Research and Development – Fabric and Home Care Research – Household Products Research
Mar. 2011 Vice President, Research and Development – Beauty Research – Hair Beauty Research
Jan. 2014 Vice President, Research and Development – Core Technology; Vice President, Research and Development – Eco-Innovation Research
Mar. 2014 Executive Officer, Vice President, Research and Development
Mar. 2015 Senior Vice President, Research and Development, Global (current)
Jan. 2016 Managing Executive Officer
Mar. 2016 Director, Managing Executive Officer
Jan. 2018 Director, Senior Managing Executive Officer Responsible for Corporate Functions
Apr. 2018 Senior Vice President, Strategic Innovative Technology, Global (current)
Jan. 2019 Responsible for Compliance (current)
Mar. 2019 Representative Director, Senior Managing Executive Officer (current)

Tomoharu Matsuda (Date of birth: Nov. 15, 1959)
Director, Managing Executive Officer

Apr. 1983 Joined Kao Corporation
Jan. 2008 President, Kao (Hong Kong) Ltd.
Mar. 2010 Chairman and General Manager, Kao (Taiwan) Corporation
Mar. 2013 President, Beauty Care, Skin Care and Hair Care Business Unit, Global
Mar. 2014 Executive Officer
Jan. 2018 Managing Executive Officer; Senior Vice President, Consumer Products, Global; Responsible for Skin Care and Hair Care Business (current); Responsible for Human Health Care Business (current); Responsible for Fabric and Home Care Business (current); Chairman of the Board, Onbase Hair Care, LLC
Mar. 2019 Director, Managing Executive Officer (current); President, Consumer Products, Global (current); Responsible for Kao Professional Services Co., Ltd. (current)

Sonosuke Kadonaga (Date of birth: Aug. 5, 1952)
Outside Director, Chairman of the Board of Directors

Apr. 1976 Joined Chiyoda Corporation
Jun. 1981 Masters in Science in Chemical Engineering, Massachusetts Institute of Technology, School of Engineering, U.S.A.
Jul. 2009 President, Intrinsics (current)
Jun. 2012 Director, Kao Corporation (current)
Mar. 2014 Chairman of the Board of Directors (current)

Other material position(s)
President, Intrinsics
Director, Business Breakthrough, Inc.
Outside Director, Chairperson of the Audit & Supervisory Committee, Sumitomo Mitsui Banking Corporation
Vice President, Business Breakthrough University

Osamu Shinobe (Date of birth: Nov. 11, 1952)
Outside Director

Apr. 1976 Joined ALL NIPPON AIRWAYS Co., Ltd. (currently, ANA HOLDINGS INC.)
Jun. 2007 Member of the Board, ALL NIPPON AIRWAYS Co., Ltd.
Apr. 2009 Executive Vice President (samui torishimariyaku), ALL NIPPON AIRWAYS Co., Ltd.
Jun. 2011 Executive Vice President (samui torishimariyaku), ALL NIPPON AIRWAYS Co., Ltd.
Apr. 2012 Senior Executive Vice President, ALL NIPPON AIRWAYS Co., Ltd.
Apr. 2013 Member of the Board, ALL NIPPON AIRWAYS INC.; President and Chief Executive Officer, ALL NIPPON AIRWAYS Co., LTD.
Apr. 2017 Member of the Board, Vice Chairman, ANA HOLDINGS INC.
Mar. 2018 Director, Kao Corporation (current)
Apr. 2019 Special Advisor, ANA HOLDINGS INC. (current)

Other material position(s)
Special Advisor, ANA HOLDINGS INC.

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

**Chiaki Mukai (Date of birth: May 6, 1952)**

Outside Director

- Apr. 1987 Staff, Department of Surgery, Keio University School of Medicine
- Aug. 1985 Payload Specialist, the National Space Development Agency of Japan (currently, the Japan Aerospace Exploration Agency; JAXA)
- Jun. 1987 Visiting Scientist, Division of Cardiovascular Physiology, Space Biomedical Research Institute, NASA Johnson Space Center
- Sept. 1992 Research Instructor of the Department of Surgery, Baylor College of Medicine
- Apr. 2000 Visiting Professor of the Department of Surgery, Keio University School of Medicine (current)
- Apr. 2015 Vice president, Tokyo University of Science; Senior Technical Advisor, JAXA
- Jan. 2016 Corporate Executive Fellow, Kao Corporation
- Apr. 2016 Specially Appointed Vice President, Tokyo University of Science (current)
- Mar. 2019 Director, Kao Corporation (current)

*Other material position(s)*

Specially Appointed Vice President, Tokyo University of Science

Medical Doctor

M.D., Ph.D.

Outside Director, Fujitsu Limited

**Nobuhide Hayashi (Date of birth: Mar. 27, 1957)**

Outside Director

- Apr. 1980 Joined The Fuji Bank, Limited
- Apr. 2007 Executive Officer – Corporate Banking Division #13, Mizuho Corporate Bank, Ltd.
- Apr. 2009 Managing Executive Officer – Japan Business Promotion, Mizuho Corporate Bank, Ltd.
- Jun. 2011 Managing Director and Head of International Banking Unit, Mizuho Corporate Bank, Ltd.
- Apr. 2013 Deputy President & Deputy President Executive Officer, Mizuho Financial Group Inc.; Deputy Director & Deputy President Executive Officer, Mizuho Bank, Ltd.; Representative Director, Deputy President, Mizuho Corporate Bank, Ltd.
- Jun. 2013 Director, Deputy President, Mizuho Financial Group Inc.
- Jul. 2013 Representative Director, Deputy President, Mizuho Bank, Ltd.
- Apr. 2014 Representative Director, President and CEO, Mizuho Bank, Ltd.
- Apr. 2017 Director, Chairman, Mizuho Bank, Ltd.
- Mar. 2019 Director, Kao Corporation (current)
- Apr. 2019 Senior Advisor, Mizuho Bank, Ltd. (current)

*Other material position(s)*

Senior Advisor, Mizuho Bank, Ltd.

Outside Director, Baroque Japan Limited

Outside Audit & Supervisory Board Member, JTB Corp.

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**Katsuya Fujii (Date of birth: Sept. 8, 1957)**

Full-time Audit & Supervisory Board Member

- Apr. 1980 Joined Kao Corporation
- Mar. 2003 Vice President, Investor Relations, Accounting and Finance
- Jun. 2011 Vice President, Treasury, Global
- Mar. 2017 Full-time Audit & Supervisory Board Member (current)

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**Hideko Aoki (Date of birth: Aug. 21, 1954)**

Full-time Audit & Supervisory Board Member

- Aug. 1982 Joined Kao Corporation
- Apr. 2007 Vice President, Product Quality Management Division
- Jun. 2010 Executive Officer
- Mar. 2015 Managing Executive Officer
- Jan. 2019 Responsible for Special Missions
- Mar. 2019 Full-time Audit & Supervisory Board Member (current)

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**Hideki Amano (Date of birth: Nov. 26, 1953)**

Outside Audit & Supervisory Board Member

- Apr. 1976 Joined Arthur Andersen LLP
- Sept. 1980 Registered as Certified Public Accountant
- Jun. 1984 Resided in Dusseldorf Office of Arthur Andersen
- Sept. 1992 Representative employee, Inoue Saito Eiwa Audit Corporation
- Sept. 2011 Vice President (Audit Management), KPMG AZSA LLC; member, KPMG Global Audit Steering Group
- Jul. 2015 Executive Senior Partner, KPMG AZSA LLC
- Mar. 2017 Audit & Supervisory Board Member, Kao Corporation (current)

*Other material position(s)*

Certified Public Accountant

Outside Director, TOPPAN FORMS CO., LTD.

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

Outside Audit & Supervisory Board Member, Seiko Holdings Corporation

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**Nobuhiro Oka (Date of birth: Apr. 5, 1963)**

Outside Audit & Supervisory Board Member

- Apr. 1993 Registered as an attorney-at-law, joined Kajitani Law Offices
- Apr. 1997 Representative Partner, Takekawa, Oka & Yoshino Law Office
- Oct. 2004 Representative Partner, Takekawa, Oka & Yoshino Law Office
- Apr. 2012 Professor, Keio University Law School (current)
- Oct. 2013 Representative, Oka-Partners Law Office (current)
- Mar. 2014 Outside Audit & Supervisory Board Member, Kao Customer Marketing Co., Ltd.
- Jan. 2016 Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd. (current)
- Mar. 2018 Outside Audit & Supervisory Board Member, Kao Corporation (current)

*Other material position(s)*

Attorney-at-Law

Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd.

Outside Director, Yamatane Corporation

Professor, Keio University Law School

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**Takahiro Nakazawa (Date of birth: May 30, 1958)**

Outside Audit & Supervisory Board Member

- Oct. 1981 Joined PriceWaterhouse Tokyo
- Jun. 1983 Joined Ayumiya Audit Corporation
- Mar. 1985 Registered as Certified Public Accountant
- Jul. 2001 Representative Partner, Chuo-Aoyama Audit Corporation
- Sept. 2006 Representative Partner, Arata Audit Corporation (currently, PriceWaterhouseCoopers Arata LLC)
- Jul. 2018 Director, Nakazawa Certified Public Accountant Office (current)
- Mar. 2020 Audit & Supervisory Board Member, Kao Corporation (current)

*Other material position(s)*

Certified Public Accountant
Executive Officers (As of March 25, 2020)

Michitaka Sawada
President and Chief Executive Officer

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

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

Yoshihiro Murakami
Managing Executive Officer
Responsible for Consumer Products - Cosmetics Business; Representative Director, President, Kanebo Cosmetics Inc.; Chairman of the Board, Molton Brown Limited

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

Akemi Ishiwata
Executive Officer
Senior Vice President, Corporate Communications, Global

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.

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

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

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

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

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

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

Ryoichi Harada
Executive Officer
Senior Vice President, Enterprise Information Solutions, Global; Vice President, Strategic Innovative Technology, Global
Hiroaki Taki
Executive Officer
Senior Vice President, Consumer Products - Marketing Emergence, Global

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

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

Hideichi Nitta
Executive Officer
Vice President, Supply Chain Management – Demand and Supply Planning Center, Global

Masahiro Katayose
Executive Officer
President, Chemical Business, Global;
Chairman of the Board, Fatty Chemical (Malaysia) Sdn. Bhd.;
Chairman of the Board, Pilipinas Kao, Inc.;
Presidente, Kao Chemicals Europe, S.L.

Shigeo Nakai
Executive Officer
Vice President, Research and Development – Performance Chemicals Research, Global;
Responsible for Research and Development – Environmental New Business

Hideki Mamiya
Executive Officer
Representative Director, Senior Managing Executive Officer, Kao Group Customer Marketing Co., Ltd.

Masaru Takeyasu
Executive Officer
Senior Vice President, Legal and Compliance, 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 (Hefei) Co., Ltd.

Hiroaki Yamaguchi
Executive Officer
Vice President, Supply Chain Management - Manufacturing Plant Center, Global

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

Kotaro Nuriya
Executive Officer
President, Consumer Products - Bioré Business, Global;
Responsible for Consumer Products - New Business Challenging Projects

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

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 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.

### 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>10 14</td>
<td>Financial results conferences, business briefings, visits to facilities, etc.</td>
</tr>
<tr>
<td>Dialogue with institutional investors and analysts</td>
<td>257 314</td>
<td>IR meetings and telephone conferences</td>
</tr>
<tr>
<td>Visits to institutional investors in Japan</td>
<td>16 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>84 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>55 49</td>
<td>Participation in conferences organized by securities firms, and holding of meetings</td>
</tr>
<tr>
<td>Presentations for individual shareholders</td>
<td>14 12</td>
<td>Presentations and visits to facilities for individual shareholders</td>
</tr>
</tbody>
</table>

### Feedback on Views and Expectations Obtained through IR Activity

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

**Best IR Award**

(from the Japan Investor Relations Association)

**2019 Award for Excellence in Corporate Disclosure**

(from the Securities Analysts Association of Japan)

The highest award in the Cosmetics and Personal Care Industry

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


Evaluations from External Organizations

![CDP A List 2019 Climate](image)
![CDP A List 2019 Water](image)
![CDP Supplier Engagement Leader 2019](image)
![World's Most Ethical Companies 2020](image)
![ecovadis 2019 Ethical Company](image)
![Corporate ESG Prime](image)
![GLOBAL100](image)
![KDDI Corporate Governance 2019](image)
![Diversity Management Selection 2019](image)
![Nade Ship 2000](image)
![Sports Yell Company](image)
Corporate Information
(As of December 31, 2019)

Corporate Overview

Company: Kao Corporation
Head Office: 14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo 103-8210, Japan
Founded: June 19, 1887
Incorporated: May 21, 1940
Share Capital: 85,424,265,916 yen
Employees: 7,905 (Number of employees in Kao Group consolidated companies: 33,603)
Subsidiaries: 116 (of which 95 are subsidiaries outside Japan)
Affiliated Companies: 6
Accounting Auditor: Deloitte Touche Tohmatsu LLC

Stock Information

Stock Listing: Tokyo Stock Exchange
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
Administrator of Shareholder Register: Sumitomo Mitsui Trust Bank, Limited
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan

Status of Top 10 Shareholders

<table>
<thead>
<tr>
<th>Name of Shareholder</th>
<th>Number of Shares (thousand shares)</th>
<th>Shareholding percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>48,057</td>
<td>9.98</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account)</td>
<td>33,274</td>
<td>6.91</td>
</tr>
<tr>
<td>STATE STREET BANK AND TRUST COMPANY 505223</td>
<td>13,238</td>
<td>2.75</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account 7)</td>
<td>11,193</td>
<td>2.32</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account 5)</td>
<td>9,713</td>
<td>2.02</td>
</tr>
<tr>
<td>JPMORGAN CHASE BANK 385151</td>
<td>8,407</td>
<td>1.75</td>
</tr>
<tr>
<td>STATE STREET BANK WEST CLIENT – TREATY 505334</td>
<td>7,848</td>
<td>1.63</td>
</tr>
<tr>
<td>SSBTCC CLIENT OMNIBUS ACCOUNT</td>
<td>6,898</td>
<td>1.43</td>
</tr>
<tr>
<td>Nippon Life Insurance Company</td>
<td>6,691</td>
<td>1.39</td>
</tr>
<tr>
<td>THE BANK OF NEW YORK 134104</td>
<td>6,613</td>
<td>1.37</td>
</tr>
</tbody>
</table>

Notes:
1. The number of shares in the above list may include the number of shares held in trusts or subject to share administration.
2. The ratio of shareholding for each shareholder above has been calculated based on the number of issued shares excluding treasury shares.

Share Price Range and Trading Volume (Tokyo Stock Exchange)

Share Price Range (Yen)

Share Price

Treasury Shares 0.06%

Composition of Shareholders

Securities Companies 3.77%
Other Japanese Companies 3.88%
Individuals and Others 10.73%
Financial Institutions 37.15%
Companies and Individuals in Foreign Countries 44.41%

6,700,000 treasury shares were cancelled in July 2019.

Monthly Trading Volume (Million shares)

Monthly Trading Volume (Million shares)

0 20 40 60 80

Share Price

Tokyo Price Index Close

0 1,000 2,000 3,000 4,000 5,000 6,000 7,000 8,000 9,000 10,000
Editorial Policy

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.