



Sustainability as the only path

Kao Integrated Report 2021

For the year ended December 31, 2020

Kao

There Are Limits to Growth, but Not Development

The Limits to Growth, a report on the crisis of mankind, was first published by the Club of Rome in 1972. It pointed out that should population increases and environmental destruction continue, within 100 years the depletion of resources and environmental degradation could see mankind reach the limits of its growth. In *The Limits to Growth: The 30-Year Update*, published in 2004, the authors warned that should emissions continue to overshoot our ability to regenerate resources, mankind would be destroyed. They also state that while “growth” refers to a quantitative increase, “development” describes qualitative improvements or an effort to build new principles, and that if development should require material growth, that growth must be sustainable in scope so as not to overshoot our regenerative capabilities.

Mass production, mass consumption and mass disposal are issues the entire world shares. For Kao, whose core business is the consumer products that people need in their daily lives, this is a significant responsibility. We believe that we must move in the direction of development rather than growth, because while there may be limits to growth, there are no limits to development.



Protecting Everyday Good Health for Enriched Lives

Japan is experiencing the effects of a rapidly aging society ahead of the rest of the world, and what matters most in that society is not simply long life, but healthy longevity. Nevertheless, as we age, our resistance to disease weakens. The lifestyle habits and stress brought about by convenience have an adverse effect on the health of not only the elderly but of all people. To live with the freedom to move about and interact with one another increases the risk of infection. As we have experienced with COVID-19 and influenza, the ability of pathogens and viruses to acquire resistance as they evolve creates significant barriers to treatment. Chronic diseases and infections arising from a complex combination of factors, each of which alone may not be life-threatening, represent an imminent threat that we may repeatedly face going forward.

Kao has offered products that are close to the lives of people under our corporate motto, “Clean citizens prosper.” Our mission is the “enrichment of the lives of people,” which we believe is based on protecting healthy lives. However, threats that put our everyday lives at risk are likely to grow and strengthen over time. That is all the more reason for us to take prevention one level higher and work to aid in more effective treatments. We have always been, and will always be, committed to contributing to cleanliness, beauty and health, and to help people live healthy lives free from the fear of disease.





Kirei — Making Life Beautiful



“Kirei — Making Life Beautiful”

Kao revised its corporate slogan in March 2021. The new slogan reflects our new determination to realize a sustainable and enriched future equally for all life through offering Kirei for people, society and the planet.

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TOP MESSAGE

Yoshihiro Hasebe

President and Chief Executive Officer
Kao Corporation

Message from the President & CEO

—To All Stakeholders around the World

Our hearts go out to everyone who has lost their life in the global COVID-19 pandemic, and I would like to convey my deepest condolences to their families and loved ones. I pray that we will all be able to return to our normal lives as soon as possible, from the health care workers who are devoting themselves to and their families, to everyone whose work has faced difficulties at work due to the need to impose health and safety measures, and the many of us who have had our lives disrupted by the pandemic.

Assuming the Office of President

In FY2021, we are starting the new Kao Group Mid-term Plan 2025 (K25). Our basic mission, to enrich the lives of people, remains unchanged. Turning more of our attention to the global environment and people's lives, we renew our commitment to be an essential company in society, specifically as a company that saves future lives.

The world now is in turmoil. The pandemic, divisions among people with conflicting beliefs, and global-scale environmental issues are increasing in severity day by day. The myth of perpetual economic growth has collapsed, and the number of people who worry about what their lives will be like tomorrow continues to grow. We have contributed to society by creating many products that are then consumed. We must recognize, however, that this is accompanied by the consumption of large amounts of materials and energy and the generation of waste. We must transform our manufacturing from an approach driven by consumption to one where resources are circulated. We aim to transition from a linear economic model based on units and volumes to a circular economy based on quality and human ties.

Enriched lives are only realized when people are able to live each day in good health. As societies like Japan

face increasingly aging populations, more people will experience repeated illness year after year, and more families will have to cope with the repercussions. To safeguard people's healthy and enriched lives, we believe that we should make effort to reduce the time people spend in ill health. We will focus our contribution activities in the coming years on the goals of helping solve the two social issues of ecosystem conservation and extending how long people live in good health.

We will not be able to overcome these major issues using the management mindset and experience we have relied upon in the past. In addition, the impacts of the COVID-19 pandemic have propelled consumption, how people work and society in general to a major turning point. At Kao as well, the coming 10 years will be a period of inevitable transformation. Kao's unique style of organizational ambidexterity, of remaining committed to preserving our valued aspects while cleanly breaking with outdated ways of doing things, was entrusted to me in January 2021 upon my appointment as President and Chief Executive Officer. I will devote all of the abilities and experience I possess to lead our organization with this dual style of management.

Kao Group Mid-term Plan 2020 (K20)

We announced the Kao Group Mid-term Plan 2020 (K20), which is the predecessor to K25, in December 2016, and have worked as a united team to achieve its three commitments to foster a distinctive corporate image, to achieve profitable growth and to provide returns to stakeholders.

In terms of fostering a distinctive corporate image, we have received positive evaluations from a wide range of external parties. In particular, we have been named to the annual list of the World's Most Ethical Companies® for 15 consecutive years, the most of any company worldwide,

by the U.S.-based think tank Ethisphere Institute, a global leader in developing and sharing best practices in business ethics and corporate social responsibility. Furthermore, we became the first Japanese company to receive a Triple A rating by the CDP, a leading international NGO. Only 10 companies out of 5,800 evaluated worldwide were selected for this distinction.

In our business performance, while we achieved creating three brands with sales of 100 billion yen, in expanding our business in Asia, and in improving profitability in the Chemical Business, we did not achieve

Message from the President & CEO—To All Stakeholders around the World

our targets of continued record highs for operating income, like-for-like net sales CAGR of +5%, or an operating margin of 15%. While our business was seriously impacted by the COVID-19 pandemic in 2020, that is not the only contributing factor. We can also attribute this result to our delay in transitioning to strategies for the future including digital transformation (DX), falling short of targets for new major products and insufficient new business creation focused on the future. For these areas, we are determined to implement reforms in K25.

Meanwhile, in the area of stakeholder returns, we

have continued cash dividend increases for shareholders, provided employees with pay increases and health support on an ongoing basis, undertaken activities to maximize the win-win relationship with customers, and have been on the forefront of progressive efforts aimed at social issues.

In the area of ESG, we have also been ranked 3rd in Japan, and 35th in the world, in the new ROESG indicator, which offers a new approach to evaluate corporate management that integrates ESG and capital efficiency. Going forward, we will continue striving to realize a sustainable society while pursuing capital efficiency.

Kao Group Mid-term Plan 2025 (K25)

In formulating K25, we reviewed the direction of our future vision based on discussions between K25 project members and many global employees. Companies' future direction should be to realize a sustainable society, but it is not easy to eliminate all activities that run counter to this. We at Kao, however, have decided to cut off all paths that do not contribute to sustainability. This decision has led to defining our K25 vision as "Sustainability as the only path." Essentially, this is similar to the concept "save future lives."

Our core business so far has contributed to helping people live healthy and beautiful lives, and at the same time, has contributed to ecosystem conservation to safeguard the well-being of the global environment. And from now, we will also strengthen our contributions to safeguarding people's lives from harm and increasing how long people are able to live happy and fulfilling lives. We are committed to engaging with these interconnected aspects of life for people and the planet, and saving future lives for all living things.

To this end, we have formulated three Kao policies focused on the Sustainable Development Goals (SDGs) adopted as international targets for global action to create a more sustainable, better world by 2030. The first is to become an essential company in a sustainable world. This expresses our approach of achieving economic development while also making progress on solutions to social issues, as well as our resolve to be a leader that prompts many other companies to also take action. With this, we commit ourselves to leveraging ESG investment tied to solutions to social issues to our future circular model of business, and to developing our business by demonstrating leadership in a self-propelling

sustainable society.

The second policy is to transform to build robust business through investment. This policy aims to create outstanding business in markets, among competitors and for customers in order to achieve future profitable growth. Business that has to fight the competition requires large expenditures and is prone to price competition and other conflicts. However, outstanding business that provides unique value generates stable profit over the long term.

It is employees who will implement these two policies, but past styles of work have imposed excessive hardships on them, and we need to show more flexibility in our thinking. Therefore, our third policy is to maximize the power and potential of employees. People's power and potential change drastically depending on the mandated style of work and their motivation. If we can move away from the belief that we have to do everything ourselves, in the sense of completing anything and everything ourselves, our power and potential will grow exponentially. And by taking the lead in collaborating with outside parties, we will be able to bring in know-how and skills we do not possess, and the kinds of business that we can potentially create will dramatically multiply. So-called new combinations are created when disparate things come together. For this reason, we will also change our personnel systems to foster conditions that make it easier than before for individuals to take on new challenges. Our new Objectives and Key Results (OKRs) based human capital evaluation system is described in more detail on a separate page.

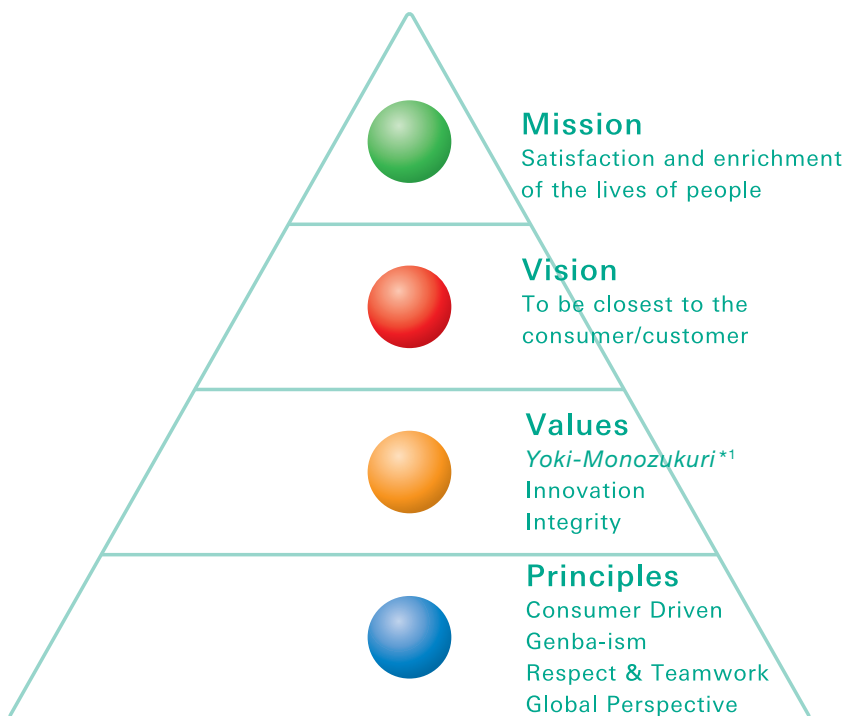
If we accomplish our targets aligned with these three policies, we will be able to achieve record-high sales and profit and meet the expectations of a great many stakeholders as a result.

Evolution of the Kao Way

We are also reviewing updates to our valued corporate philosophy in order to give shape to our aspirations and maximize the power and potential of individual employees. The Kao Way, our corporate philosophy, was established in FY2004 and has become established as a way to spread the exemplary spirit that has been passed down from our predecessors to all Kao employees. At the time, the Kao Way was created as the starting point for all of our activities, and employees made united efforts to implement it. On the other hand, corresponding to

this new period of transformation, we have begun a review to update the parts of our corporate philosophy that need to change with the times. Dave Muenz, Senior Vice President in charge of the ESG Division, have been overseeing this effort to establish our philosophy from a global perspective. We are by no means changing our commitment to a consumer-driven approach, continuous innovation and Integrity (walking the right path). We plan to announce the updated Kao Way in FY2021, which will serve as a renewed moral pillar within Kao.

The Kao Way



Revising Our Corporate Slogan

In addition to updating the Kao Way, we are revising our corporate slogan that was announced in FY2009. We use the Japanese word “kirei”^{*2} to express the specific value created through our corporate citizenship. We pledge to help everyone live a beautiful life inside and out, by contributing to making the world cleaner and healthier,

eliminating harms to safeguard all life, and ensuring that everyone can lead happy and fulfilling lives. We are therefore revising our corporate slogan to “Kirei—Making Life Beautiful.” Taking this slogan to heart, we aspire to engage in a higher level of corporate citizenship activities.

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

*2 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.

Message from the President & CEO—To All Stakeholders around the World

Integrated Business Portfolio and Digital Life Platform

Companies have two options when they are looking to achieve growth globally. One is to specialize in their strength and aim to expand business in this area. The other is to become a conglomerate that connects new businesses to increase its output efficiency per unit of investment. Amid the rapid changes seen around the world, I believe that we will not achieve both management stability and dramatic development unless we also explore new business avenues in addition to focusing on expanding our existing core business. While product-based innovation is also important, our path forward is to realize our own distinctive world by creating and acquiring new business models.

However, simply being a conglomerate will not succeed in today's world. There needs to be a common core that runs through both the existing and the new business. Solving pressing global-scale social issues will unmistakably become a major movement in the coming decades, and this is the central core that runs through our policies. We aim to expand globally as a company that integrates diverse viewpoints, technologies and businesses to solve customers' problems. To achieve this, we have reorganized our existing businesses around corporate citizenship, and have also clarified the areas of contribution for each division to focus its activities.

In addition, in activities to expand our services that use state-of-the-art technologies, the key will be the extent to which we can use precision data in comprehensive ways. We have broadly contributed to industry with environmental technologies and have made contributions to the fields of beauty and health with environmentally-conscious hygiene products that also help conserve the environments in which people live and by offering thorough and comprehensive care for physical well-being. We have segmented these categories for the convenience of business management, but seen from the eyes of consumers, all of the categories are organically and seamlessly connected.

But there is one area where Kao is not present in consumers' daily lives. This is when they become ill. In the journey experienced by patients, which is the cycle of testing → treatment → alleviation of symptoms → ongoing prevention termed the patient journey, we have engaged in business in the health care domain with professional-use products primarily aimed at prevention and protection from infection. However, we must recognize that we have weaknesses in business and product development to care for graver concerns,

because we have not approached this business in terms of the illnesses themselves.

Now, however, through collaboration in many other fields and with many outside parties, our Essential Fundamental Technology Research include advanced monitoring technologies connected to both living with an illness (patient journey) and living in good health (life journey). In addition, we have also deepened our research into technologies for treating treatment-resistant diseases, through deepening our capabilities in neurology, behavioral science and dermatology. The life care we aspire to realize is in the area of ongoing supportive health care that bridges these two journeys. With a foundation in high-precision monitoring technologies, Precision Life Care truly represents one business vision to safeguard the time people live in good health. Considering the impending nature of the aging society and rising medical expenses, we also expect that in-home medical appointments and treatments will become standard practice. We believe that we should focus on treatments for infectious diseases and treatment-resistant diseases. Treatment-resistant diseases, which may have mutating pathogens and many contributing factors, require both a holistic lifestyle approach and an individualized approach, and tangible intervention from all routes is considered effective.

We refer to generating innovation in our existing business categories as "Reborn Kao," and have collectively named our business principally built on life-related services differing from our past activities as "Another Kao." We will build a digital life platform, whose core is monitoring technologies that learn about consumers, to serve as the foundation for both Reborn Kao and Another Kao. We also aim to make this platform itself a new business model that will connect us to many outside parties.

Lastly, when thinking about transitioning from a linear economy to a circulating economy, and achieving both an enriched society and daily good health, the next advancement for Kao is manufacturing with minimal impact on people and the planet that produces maximum value. We will embrace the concept of "maximum with minimum," where we deliver maximum value with minimum resources, as our future commitment.



Maximizing the Power and Potential of Employees

People's power and potential change drastically depending on the style of work and their motivation. To make our company stronger, we need the drive and enthusiasm of engaged employees. There is no greater sense of reward than when you set a challenging target and then achieve it. This approach is the driver of the development we have achieved so far, but our existing system of using Key Performance Indicators (KPIs) for objectives management has reached its limit in terms of its ability to dynamically advance the approach. Therefore, we have decided to introduce a system using OKRs, where employees set their own ambitious

challenges and are evaluated based on the progress they make toward them. This OKR system is unlike the KPI system in that it does not deduct points from evaluation scores, but adds points according to outcomes. We aim to have all employees learn about other employees' individual activities and to form one team where they learn from each other, help each other and rely on one another. This OKR system is not only an effective tool internally but also in our external activities. We will partner with outside parties more than before and strive to achieve targets that would be impossible to achieve on our own.

In Conclusion

K25, which starts from FY2021, is designed to create the foundation for our next stage of profitable growth. While the global impacts of the COVID-19 pandemic are projected to be with us for a while longer, to nevertheless achieve sustainable growth as a company, we must simultaneously strengthen our base of existing business while building new business models. To our stakeholders, we will make every effort to present thorough explanations while publicly releasing information about our current status, our targets and the progress we make toward them as much as possible. We will also proactively carry out M&A for future development as well as continue our commitment to providing cash dividend increases to

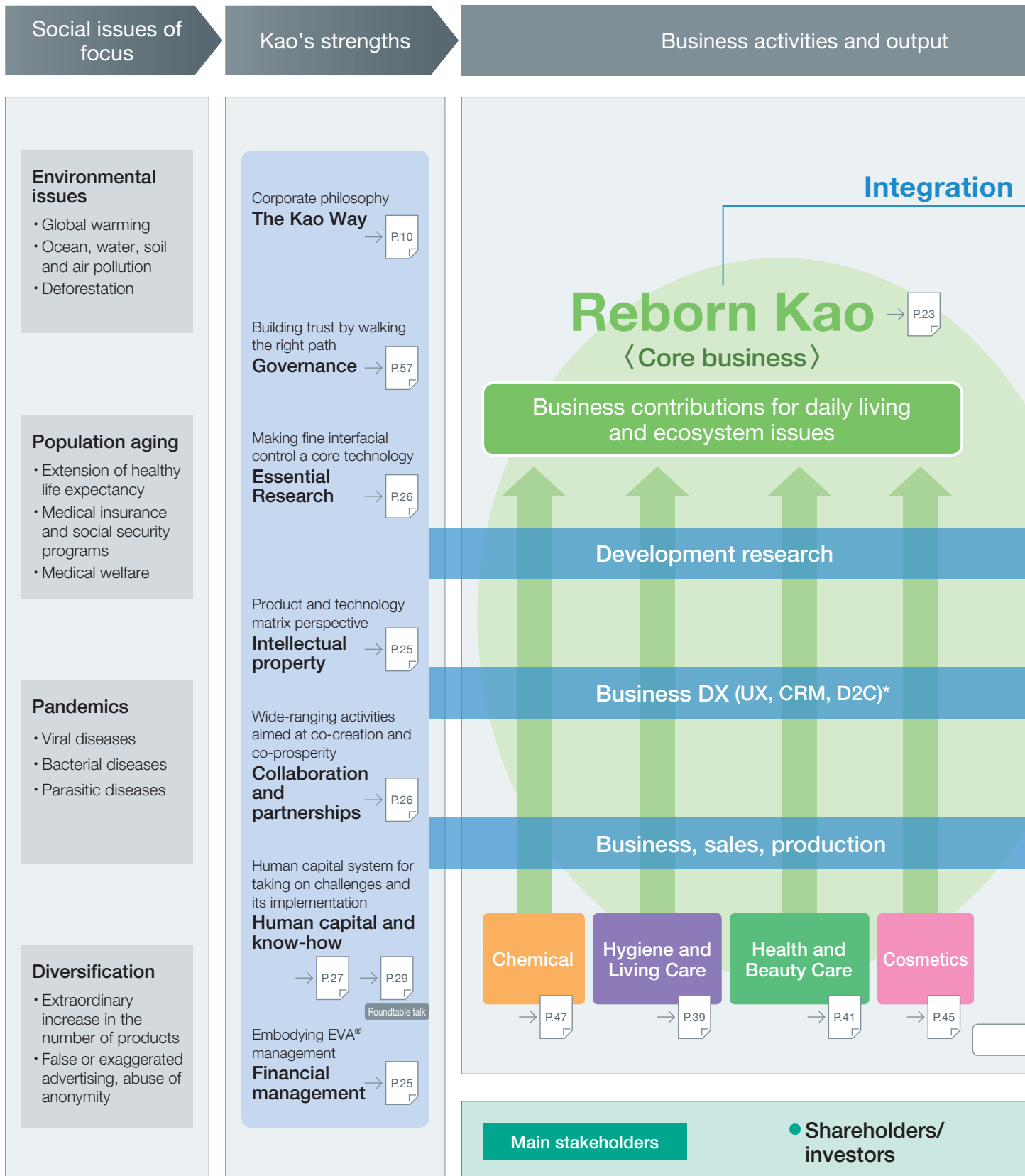
shareholders.

With our new mission to save future lives, we aim to be an essential company protecting people's lives and daily living as well as conserving ecosystems. We will courageously take on new challenges and advance *Yoki-Monozukuri* that becomes the new standard for customers.

President and Chief Executive Officer
Kao Corporation

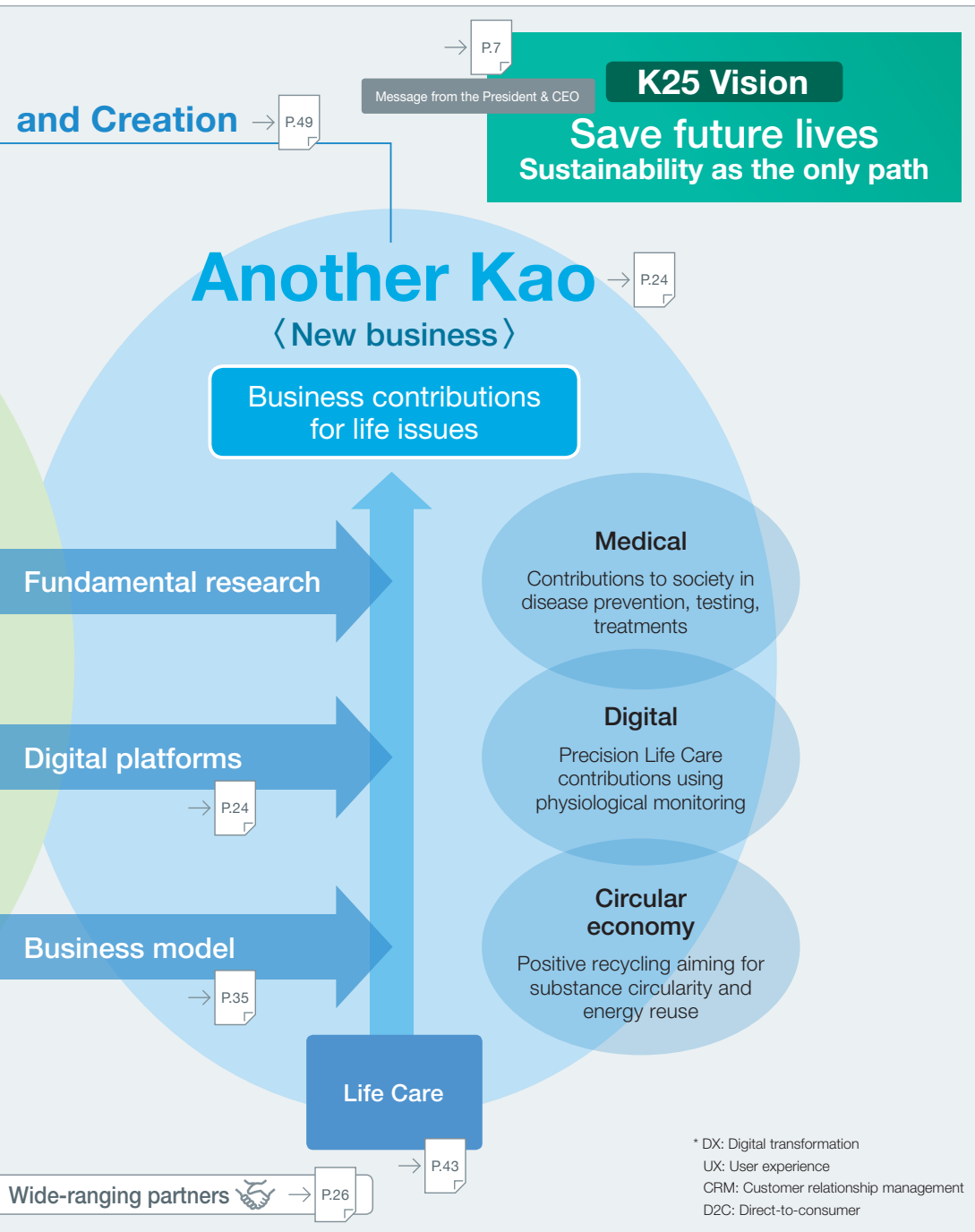
Overview of the Business Kao Is Aiming for

Become a Company That Uses Its Integrated Power to Offer Solutions for the World's Social Issues



We use the phrase integrated power in contrast to the concept of total power. Total power generally signifies the collective sum of all power, while integrated power has the meaning of synergies created from disparate powers or new power created from new combinations.

Kao's aspirations
for 2025



Mission

Enrichment of the
lives of people



Me

To protect **people** from hazards so that they can enjoy their everyday lives



We

To achieve a sustainable and prosperous **society**



Planet

To maintain **the planet** as a sustainable and clean place to live

● Employees

● Customers

● Consumers

Kao Group Mid-term Plan 2025 (K25)

Kao aims to become a company with a global presence, valuable to society by 2030. K25 has been positioned as an important milestone to realize this objective.

FY2017–2020

Kao Group Mid-term Plan K20

Three Commitments

- Fostering a distinctive corporate image
- Profitable growth
- Returns to stakeholders

Major achievements

By making a major shift toward ESG-driven management and further strengthening our initiatives, we have succeeded in improving our image globally as a company that is contributing toward the realization of a sustainable society, and along with this we also have been highly recognized by external organizations. At the same time, we have committed to delivering returns to stakeholders, achieving objectives such as continuing to increase cash dividends to shareholders.

Net sales

1.38 trillion yen

Operating income

175.6 billion yen

FY2020 Results

FY2021–2025

Kao Group Mid-term Plan K25

- 1 Become an essential company in a sustainable world
- 2 Transform to build robust business through investment
- 3 Maximize the power and potential of employees

Major Initiatives

We will take our promotion of ESG-driven management a step further, striving to both make a positive contribution to society and achieve financial growth. While also bolstering our existing businesses through well-focused investments, we will collaborate with diverse partners based on our unique technology assets built up through our Essential Fundamental Technology Research to develop our business. We will also make intensive efforts to implement distinctive DX that innovates both our existing and new business. We will be creating a working environment that enables all employees to challenge themselves, and which will enhance the productivity of our business activities.

FY2026–2030 →

What Kao Aims to Be by 2030

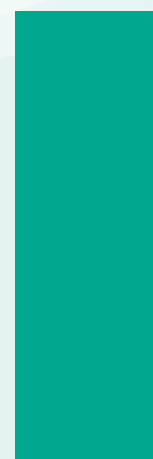
Make Kao a company with a global presence, valuable to society

- Become an essential company in a sustainable society
- A high-profit global company that also significantly contributes to society
- Returns to stakeholders according to levels of growth

FY2030 record-high sales and profit growth

Numerical targets	
Net sales	2.5 trillion yen
Operating income	400 billion yen
Continued increase in cash dividends	41 consecutive years

Net sales
2.50 trillion yen



Operating income
400.0 billion yen



Targets for FY2030

Sustainability as the only path

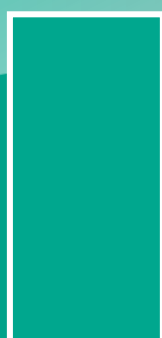
Transformation and development into a company that “saves future lives”

FY2025 record-high sales and profit growth

Numerical targets

Net sales	1.8 trillion yen
Operating income	250 billion yen
Continued increase in cash dividends	36 consecutive years

Net sales
1.80 trillion yen



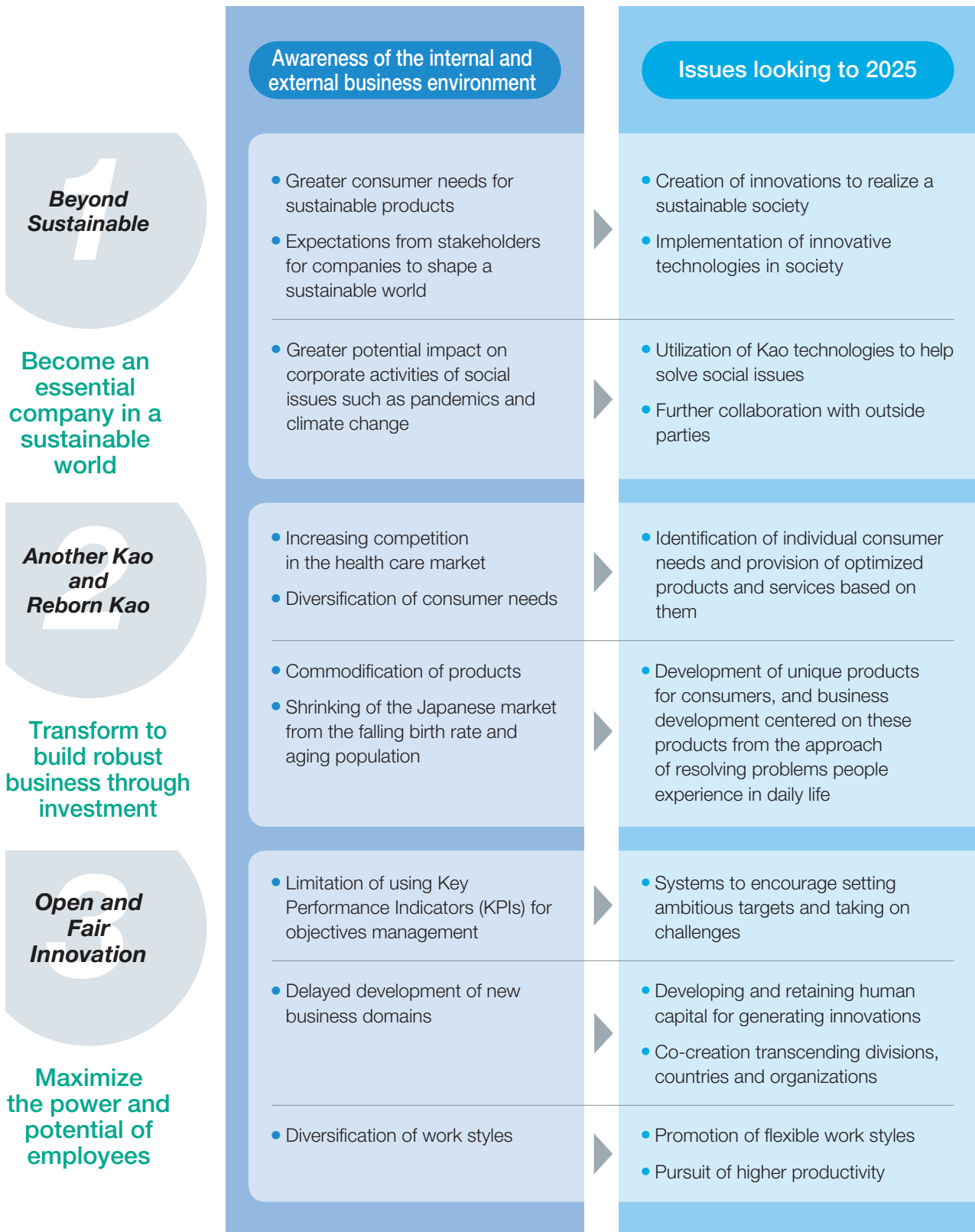
Operating income
250.0 billion yen



Targets for FY2025

Kao Group Mid-term Plan 2025 (K25) Objectives

Looking closely at the major changes taking place in society, we have formulated Kao Group Mid-term Plan 2025 (K25) around the focus of saving future lives. We will harness innovation to create new businesses and offer new added value to society, and thereby create a wholly new Kao. To build the foundation to realize this, we are implementing reforms to our personnel system and digital transformation.



Financial target: Record-high sales and profit growth

Net sales **1.8** trillion yen

Operating income **250** billion yen

Dividend **36** consecutive years

Target

Take leadership in a self-propelling sustainable society

Innovation in Recycling

Carbon recycling

We will reduce CO₂ emissions and use catalyst technologies to convert emitted CO₂ into raw materials that we can then use in manufacturing.

Positive recycling

We will create new businesses through recycling, such as developing asphalt modifier that improves durability using waste PET materials.

Stop pandemic

We will strengthen infection prevention measures and the prevention domain by leveraging technologies built up in research on hygiene, biology, safety and substances. In addition to making hygiene products and services more widely available, we aim to have technologies to prevent mosquito-borne transmissible diseases be applied in society and made widely available.

Create another Kao and reinforce current Kao

New business development in the health care domain

Precision Life Care

Using a digital platform built based on the physiological data we have built up through our Essential Research as well as our unique monitoring and AI technologies, we will create a new business to predict changes from consumers' physiological information and deliver solutions customized to offer the best results for that person.

Strengthening existing businesses

Strategic business reforms

We will redefine our added value through new product development and marketing able to transform what has so far been the consumer experience. We will also actively invest in structural reforms and digital transformation (DX) to build a more robust business framework.

Double the productivity of our business activities

Introduction of Objectives and Key Results (OKRs)

We will increase employee productivity by building an organizational culture in which all of our global employees carry out OKR activities and are encouraged to take on challenges.

Mobilization of specialized human capital and co-creation

We will lay the foundation for highly specialized, diverse human capital to fully demonstrate their capabilities, and pursue major successes from collaboration with other companies.

Productivity improvements using digital technologies (to be completed by FY2023)

We will improve accessibility to all types of data using digital technologies, and at the same time, promote flexible work, bring visibility to individuals' work styles and communication activities, and pursue higher productivity.

Beyond Sustainable

Become an Essential Company in a Sustainable

ESG Strategy: Kirei Lifestyle Plan, Sustainability as the only path

In April 2019, Kao announced the Kirei Lifestyle Plan (KLP), our ESG Strategy, and began a shift toward ESG-driven management. We are announcing our strong commitment to ESG-driven management with “Sustainability as the only path” as we renew these desires for Kao Group Mid-term Plan 2025 (K25). With the rise of the pandemic and digitalization, the world is changing ever more rapidly. In such a tumultuous situation, we will implement the KLP, our ESG Strategy to enrich the lives of people around the world.

Changing Business Environment and Kao's Response Measures

Changes in consumers' awareness and behavior

- Social unrest and a global economic downturn due to the COVID-19 pandemic
- As social issues become more apparent, the trend to consciously choose companies working to solve these issues and products with a social mission will gain greater momentum and the tendency to want ethical consumption will become stronger.
- There is a greater degree of personalization to pursue individual expression and an ongoing shift in values from owning goods to having experiences. This involves not merely experiences but choosing a product that enriches one's spirit.
- It is important for consumers to identify with a brand's purpose and the story behind the brand and its products.

Kao Actions

Improved quality of life
Habits for cleanliness, beauty & health
Purpose driven brands

Growing severity of human rights issues

- Various human rights issues, such as racism, worsening work conditions, late payment of wages and inequality, have become a serious problem.

Kao Actions

Respecting human rights
Responsibly sourced raw materials

Aged society

- An increasingly aged society in both developed and developing nations

Kao Actions

Improved quality of life
Universal product design

Ocean plastic pollution

- Problem of ocean plastic pollution that needs to be solved urgently
- Society requires businesses to reduce packaging and create recycling systems

Kao Actions

Zero waste
Transformative innovation
Air & water pollution prevention

Climate change

- Decreased social costs and financial risks to businesses due to aggressive climate strategy

Kao Actions

Sustainable lifestyle promotion
Decarbonization

Digital society

- Quickly respond to the changes in life and work styles, the efficiency and innovation for work processes and operations, and the efficiency and innovation in social systems due to the digitalization of society and the economy

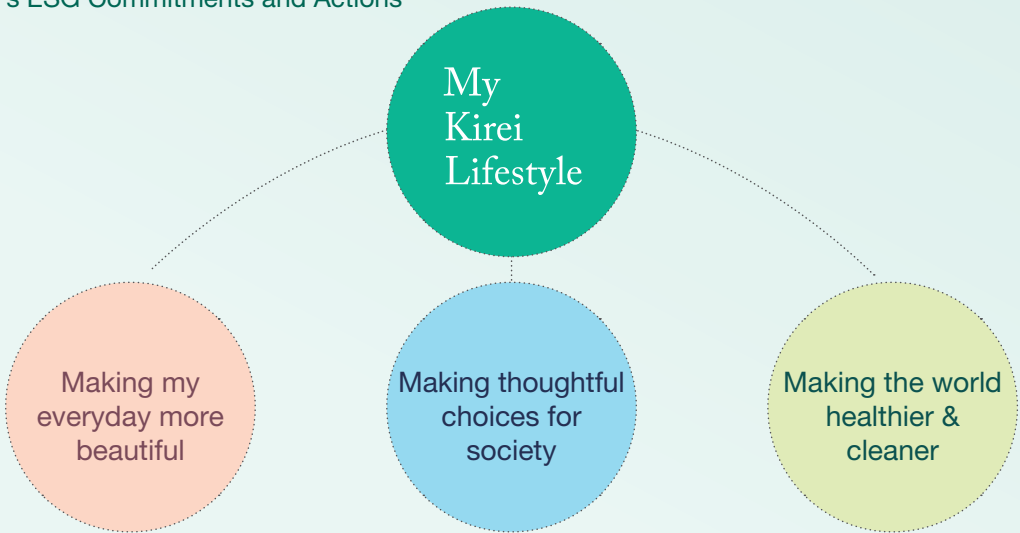
Kao Actions

Full transparency
Responsible chemicals management

Kao's ESG Strategy, the Kirei Lifestyle Plan

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.

Kao's ESG Commitments and Actions



Kao's Commitments for 2030

BY 2030

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

BY 2030

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

BY 2030

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

ESG Strategy Focus in K25

Our goals in implementing the ESG Strategy are as follows.

- Deepen and expand the three existing business fields of cleanliness, health and beauty
- Build the business with the new focus of “Save lives, protect people”

E	Environmental	Zero waste/carbon zero
S	Social	One and only personalization
G	Governance	One team with integrity

1 Become an Essential Company in a Sustainable World

Making the World Healthier & Cleaner

Address Climate Change

To realize a net-zero society by 2050, we are working on initiatives for decarbonization with our many stakeholders ranging from investors and suppliers to consumers. In K25, we will continue to steadily reduce emissions of greenhouse gas (GHG) associated with our business activities. Moreover, we are taking the lead to be a self-propelling sustainable society by promoting Innovation in Recycling as an important initiative, proposing products to contribute to the reduction of emissions, and

developing carbon recycling technologies made from GHG.

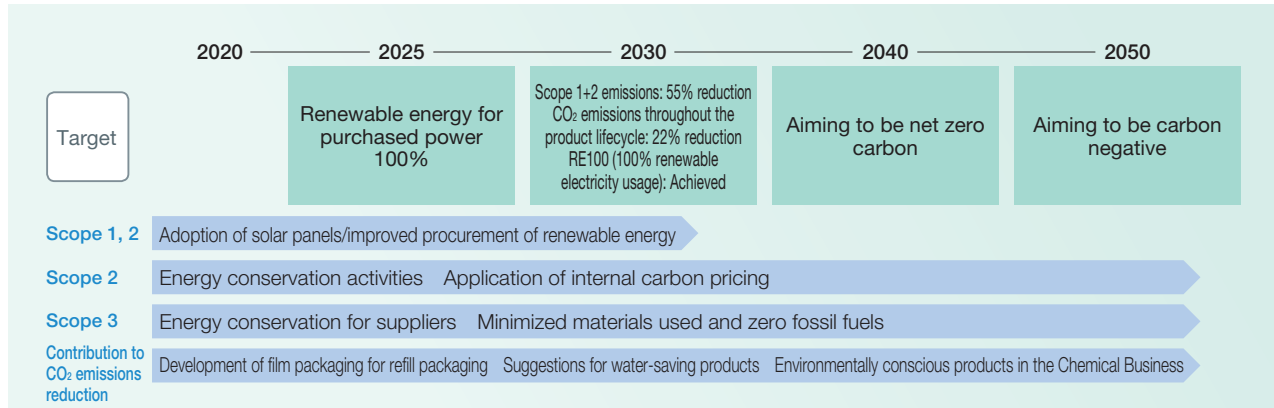
In March 2019, Kao expressed its support for the recommendations of TCFD. We use scenario analysis to evaluate climate-related risks and opportunities, which includes the water risk and plastic cycle, and promote different initiatives based on the results of this evaluation.



Governance	<p>With the recognition that climate change poses major management risks, the Internal Control Committee manages risks concerning climate change issues and the ESG Committee manages relevant opportunities under the supervision of the Board of Directors. These committees are headed by the President and Chief Executive Officer. At least once a year, each committee reports on the status of their activities to the Board of Directors. The Board of Directors discusses how to achieve these targets and shares their progress quarterly.</p>				
Strategy	<p>At Kao, we conduct 2°C scenario and 4°C scenario analysis, referencing the International Energy Agency and the Intergovernmental Panel on Climate Change. We assessed the risks and opportunities pertaining to the attainment of “What Kao Aims to Be by 2030” for each of four product lines from our business units with qualitative and quantitative analysis and confirmed the direction for each countermeasure at Kao, placing emphasis on the critical factors for climate change to formulate the Mid-term Plan. In the future, the appropriate management of risks and business opportunities, including the opportunity presented by increased demand for environmentally conscious products, will lead to improved profitability.</p> <table border="1"> <thead> <tr> <th data-bbox="363 1319 871 1350">Risks</th><th data-bbox="871 1319 1386 1350">Opportunities</th></tr> </thead> <tbody> <tr> <td data-bbox="363 1350 871 1541"> <p>Transitional risk Increased cost due to the adoption and increase of carbon tax, plastic regulations, rising price of energy and rising price of raw materials</p> <p>Physical risk Operations impacted by the intensification of abnormal weather conditions and pressing water demands</p> </td><td data-bbox="871 1350 1386 1541"> <ul style="list-style-type: none"> • Increased sales of ethical products due to changes in consumer behavior • Increased sales of products that address the rising average temperatures • Take a leadership role in society by developing recycling technologies </td></tr> </tbody> </table> <p>Performance in 2020</p> <p>At Kao, we place emphasis on the major risks that impact us realizing “What Kao Aims to Be by 2030,” considering that the CO₂ emitted when disposing and recycling product packaging has a major impact on climate change. As a measure for this, we are continuing to introduce recycled plastic in the packaging for many of our products, such as cleansers and lotions, throughout the world, including in Europe and the Americas. The use of innovative film packaging expanded, and we launched products using <i>Air-in Film Bottle</i> and <i>Tube-Like-Pouch</i> in the United States, which reduced the plastic used by around 50%. We established the Recycling Science Research Center in 2020 to promote Innovation in Recycling as a mitigation measure to curb emissions of GHG. In addition to this, we are continuously improving the energy efficiency in our business activities, making a shift toward renewable energy, and implementing activities to reduce emissions throughout the product lifecycle.</p>	Risks	Opportunities	<p>Transitional risk Increased cost due to the adoption and increase of carbon tax, plastic regulations, rising price of energy and rising price of raw materials</p> <p>Physical risk Operations impacted by the intensification of abnormal weather conditions and pressing water demands</p>	<ul style="list-style-type: none"> • Increased sales of ethical products due to changes in consumer behavior • Increased sales of products that address the rising average temperatures • Take a leadership role in society by developing recycling technologies
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Risk management	<p>With the recognition that risks caused by climate change also pose major corporate risks, we have established and continue to upgrade our comprehensive risk management system, starting from the Internal Control Committee. We monitor the risks and countermeasures, and periodically evaluate them. We make revisions according to the circumstances.</p>				

Indicators and targets: Climate change initiatives and roadmap

By 2030, we will reduce Scope 1+2 GHG emissions deriving from our business activities by 55% (compared to 2017), and will reduce emissions throughout the product lifecycle by 22%. We will also contribute toward enabling society as a whole to reduce CO₂ emissions by 10 million tons.



Zero Waste

While reducing the usage of materials and plastic as much as possible, we are promoting the reuse and recycling of second-hand packaging and unusable materials and products, with a commitment to zero waste as a critical initiative for ESG-driven *Yoki-Monozukuri*.

The objectives of K25 are to invest effort in Innovation in Reduction and Innovation in Recycling toward the formation of a circular society for plastics, and as part these efforts, to attain Positive recycling by creating new businesses through recycling. At the end

of 2020, the Chemical Business used Kao's proprietary modification and compounding techniques on scrapped raw materials made of PET plastic (scrap PET plastic) to develop *New Truck 5000*, a new, durable modified material for asphalt, which is now being sold. This example embodies Positive recycling in how it circulates plastic resources and creates new value through business. In May 2020, we established the Recycling Science Research Center in our R&D Division and this center is pushing forward business development with a model of plastic resource circulation.

Walking the Right Path

Respecting Human Rights

We have developed the Kao Human Rights Policy, which is based on the United Nations (UN) Guiding Principles on Business and Human Rights, and we aim to eliminate human rights violations in all our business activities and to promptly solve any unexpected issues that might arise. We are implementing focused measures, for example, we conduct a human rights risk survey each year based on our awareness of the high level of human rights risks faced both by our employees and in the supply chain, particularly for palm oil.

Since joining RSPO in 2007, we have leapt into action to solve the problems in procuring palm oil, which includes purchasing oil that is certified to uphold human rights and be environmentally conscious. We are already ensuring the traceability to our suppliers' fat and oil factories and in-house farms managed by oil suppliers. In addition, we

consider improvements to producers' living conditions and environmental conservation of producing areas to be important challenges, therefore, we are partnering with Apical Group, a palm oil seller in Indonesia, and Asian Agri, a farming company, to give guidance to small oil palm farms on methods and techniques to manage their farms. Our plan by 2030 is to support approximately 5,000 small oil palm farms.



Another Kao and Reborn Kao

Transform to Build Robust Business through

Create another Kao and reinforce existing businesses

To date, Kao has worked to create things of true value to people by rigorously advancing Essential Research. The knowledge of living organisms we have gathered over these many years of research ranges widely. This knowledge can be considered an asset for Kao, one which we will utilize to create “Another Kao” in the medical field. At the same time, as the “Reborn Kao” we will be driving innovation in our existing fields of business to create new value.

Reborn Kao: Reinforcing Existing Businesses

In our existing businesses in the Consumer Products Business, we will prioritize investment allocation on core brands and products. In the Cosmetics Business, we will maximize our bonds with the consumer through brands with distinctive features. In doing so, we believe the key to global growth—including for cosmetics—will lie in strategic marketing that utilizes digital technology. Even in countries where we have yet to develop new sales channels, we will strengthen communications using social media and online sales channels.

In the Chemical Business, we will focus on increased food production, renewable energy, infrastructure revitalization and the development of environmentally-conscious materials, with the goal of achieving a global sustainable society. In the fields of ecology and hygiene, we will strengthen the synergies between the Chemical and Consumer Products Businesses.

Yoki-Monozukuri with ESG Perspective

To balance a sustainable society with sound business activity, we have established a brand purpose for each of its brands, and will move forward after clarifying what making a social contribution means for each of them. In the environmental sector, this will involve working from the perspective of not simply recycling resources, but a circular economy focused primarily on the advanced, diverse reuse of used products with the goal of improving resource efficiency starting with reducing the volume of materials for final disposal. As global diversity accelerates, it is expected that people will also begin choosing products that are more personalized for the individual. What this will require are evidence (information) that individuals find convincing, as well as performance that offers recognizable value. Going forward, our *Yoki-Monozukuri* will have a strong focus on these two

factors as we increase the number of unique products and brands that consumers will continue to patronize.

Strengthening Digital Engines

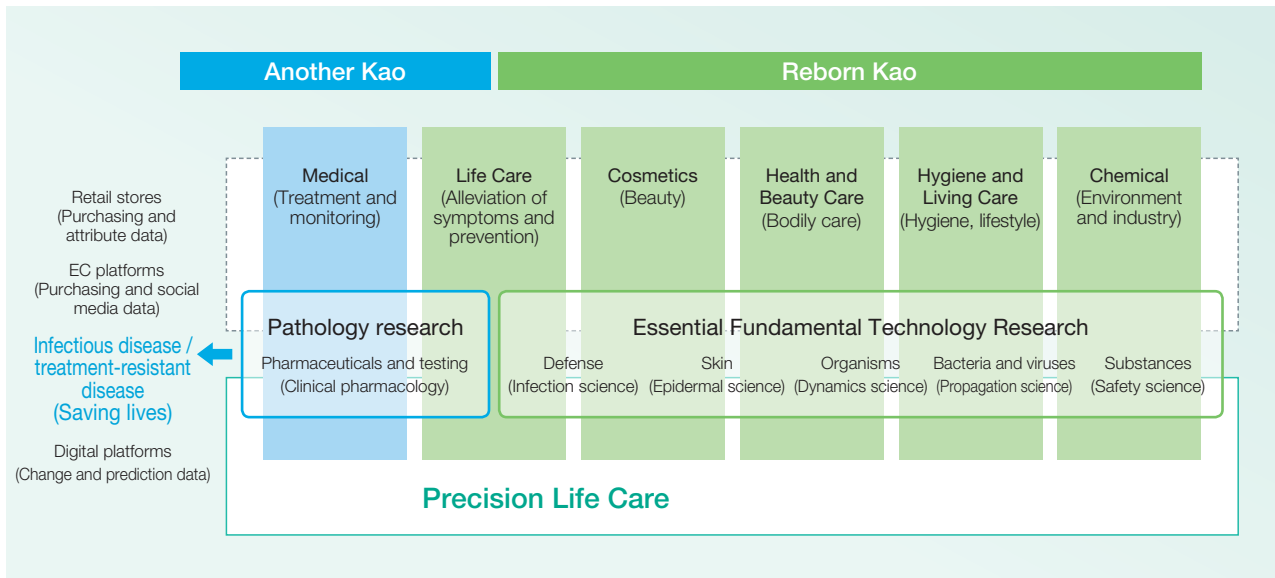
Over the past several years, Kao saw delays in our efforts to shift to digital technology, but thanks to the active deployment of cutting-edge technology, in some categories our business now utilizes industry-leading digital engines. One example is technology that monitors faces, hair and motion, and allows consumers to choose the optimal products and experience their quality for themselves. We have dozens of types of original technologies for this kind of monitoring, and we believe we can provide a new kind of service as we work to maximize individual consumer value through multivariate analysis of the data we obtain from them. We think that, even in the co-creation with retailers and e-commerce platforms, this digital monitoring platform is unique. Going forward, we will add new user experiences (UX) and other digital technology, strengthening Kao’s direct sales (D2C) of products optimized for individual consumers.

Strategic Business Investment

We will operate well-balanced businesses through brand and area strategies centered around selection and concentration. In Asia, we will strengthen our hygiene-related business, primarily in China and Indonesia, while also expanding our business portfolio in the Americas and EMEA. In the beauty care sector including for hair salons, we will accelerate our collaboration with e-commerce platforms as we also focus on our own digital communications.

Investment

Another Kao: Expanding Business Fields



Kao's Assets

- 1 Essential Fundamental Technology Research (safety and homeostasis research) developed to support existing businesses and products
- 2 Consumer information and knowledge of hygiene and prevention (everyday consumer information) gained through a variety of businesses
- 3 Brands and the ability to design products in the skin care and health care fields (advanced formulation technology)

Kao has always been a company that contributes to everyday life, but health is the base that supports that day-to-day life. The three assets noted above were cultivated through the development of daily necessities, but also represent assets that can contribute to peoples' health. While we have yet to enter the medical field, we do have a variety of monitoring technologies for everyday life that can be applied to treatment and diagnostics. Some of these offer possible approaches not found in the pharmaceutical industry, including in the areas of bacteria and virus research and inactivation technology and in treatment-resistant diseases that have a complex involvement with life in general. Today, global medical trends are also beginning to shift from hospital-driven treatment to private sector initiatives such as online diagnostic services. The abovementioned monitoring technologies offer personal parameters gathered from a

broad number of angles into everyday life. They are also an important data-based digital platform for preventing illness in everyday life, and for achieving alleviation of symptoms that allows a return from illness to everyday life. Using AI to analyze a wide range of factors will make it possible to offer Precision Life Care optimized for each individual consumer.

As set forth in Kao Group Mid-term Plan 2025 (K25), Another Kao is a new kind of business creation born out of technology generated by our existing business and the interconnectedness of our business of protecting life. In preparing to create this new business, we will not only maintain strong alliances with our existing partners, but will actively work with partners in new fields.

2 Transform to Build Robust Business through Investment

Financial Management

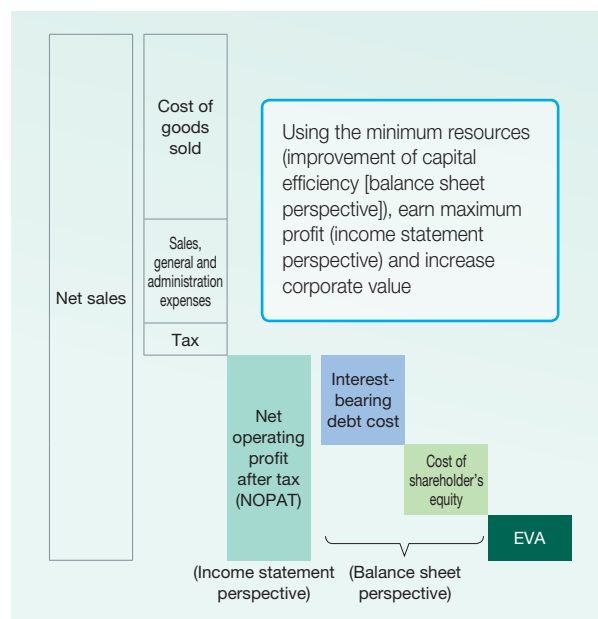
We use Economic Value Added (EVA®) as principal management metric. Continuously increasing EVA leads to greater corporate value, and corresponds not only to long-term benefit for shareholders but also for all of our stakeholders. The concept of “maximum with minimum” that we present in the K25 in fact represents the approach of EVA management. EVA could also be described as a metric that calculates how much true economic benefit is produced from invested capital. Management is always aware of invested capital since priority is given to obtaining profit in amounts exceeding the expected profit from the capital. The approach of “maximum with minimum” encompasses increasing Net Operating Profit After Tax (NOPAT) without increasing invested capital, through higher sales and reducing costs, and lowering cost of capital by, for example, improving our capital structure. This produces higher EVA and leads to enhancing corporate value. Although we have managed our businesses individually using numerical methods, we have not set target EVA values for each business, and instead use the EVA metric as a company-wide target. Our business divisions employ matrix management, where various functions including R&D, production and sales are encouraged to dynamically interact, while we manage capital efficiency as a single entity, because we believe this encourages proactive investments by business divisions and allows for flexible capital allocation according to the business circumstances. In K25, we will continue to use EVA as a principal management metric while also implementing financial measures in anticipation of where the times are headed and continuing to innovate.

Intellectual Properties

The extensive portfolio of intellectual properties we have built up over our more than 130 years in business is a source of our value creation. Integrating consumer needs with materials and technologies we have independently developed through ongoing R&D and world-leading discoveries of scientific facts and findings has led to groundbreaking innovations and allowed us to offer new value to consumers. The expectations and trust earned from consumers in these activities have served to build the foundation of our strong brand power, which

EVA Approach

(Remaining profit after deducting capital costs used in corporate activities = Profit directly linked to corporate value)



EVA Formula

EVA = Net operating profit after tax (NOPAT) – Cost of capital

$$= \left(\frac{\text{NOPAT}}{\text{Invested capital}} (\text{ROIC}) - \text{Weighted average cost of capital (WACC)} \right) \times \text{Invested capital}$$

is broadly recognized around the world. Intellectual properties exert significant influence on increasing corporate value, and investing in R&D and human capital is absolutely essential to achieve growth in the mid- to long-term. We will proactively make investments in these fields to give ourselves a greater global presence and be valuable to society.

Essential Research

In our *Yoki-Monozukuri*, above all we value Essential Research that pursues the truth that lies at the heart of the subject. We see our Essential Research as discovering intrinsic value by thinking deeply about things, examining them in detail, and revealing the truth through factual and theoretical processes. Identifying intrinsic value and giving shape to it in the form of our products and services, in other words, creating quality products that are valuable to society, is the purpose of R&D at Kao.

The essence of things is not singular, but multi-faceted. For example, while surface science has a long history, it continues to be a cutting-edge research field with the potential for any number of new discoveries. This is one reason why we consider surface science a core technology and continue to intensify our research in this area. The quest for the truth is never-ending, and thoroughly pursuing the truth can bring new discoveries. These discoveries in turn become creative seeds that carry the potential for application in a variety of products. *Yoki-Mono* (good products), valuable to society cannot be manifested simply through the ideas of our researchers. It comes from the unification of knowledge and technology. This is why, using the matrix management of fundamental technology research

and product development research as a base, we create opportunities for our researchers to discuss their research with staff from many different departments, including marketing and production, through various meetings and internal research presentations. We also partner with research institutes at universities and elsewhere as well as other progressive companies within and outside Japan, including actively participating in scientific societies and industry associations and sharing the latest research findings. Having interested individuals and people who share common issues come together, engage in discussions and cooperate to invent quality products is an aspect of our valued corporate culture.

We will continue pursuing Essential Research with the goal of contributing to offering new value.



Co-creation with Wide-ranging Partners

We cannot achieve solutions to social issues that are growing in scale and severity around the world with our abilities alone. We are collaborating with a wide range of partners who share the same aspiration beyond the boundaries of industry, academia and the government.

The following introduces a few examples of activities we are engaged in across the medical, environmental and digital fields. We believe that these activities will connect to expansion of new business domains and further innovations in our existing businesses.

Collaboration with Companies, Universities and Local Governments in Wide-ranging Fields to Realize Another Kao and Reborn Kao

Preferred Networks, Inc. <ul style="list-style-type: none"> Developed advanced algorithms based on AI technology that analyze a vast amount of data obtained from RNA found in the skin by using Kao's RNA monitoring technology 	Kitasato University <ul style="list-style-type: none"> Successfully acquired VHH antibodies, which may lead to development of COVID-19 diagnostics and therapeutic drugs
Lion Corporation <ul style="list-style-type: none"> Began field testing for segregated collection of used refill packaging as part of efforts to realize a resource-circulating society for plastic packaging Smart logistics efforts (through joint delivery) aimed at increasing truck transport productivity and reducing CO₂ emissions 	Welcia Holdings Co., Ltd. / Iwata City, Shizuoka Prefecture, Japan <ul style="list-style-type: none"> Paving parking lots and regular roads with an asphalt modifier for greater road durability using waste PET that Kao developed

Open and Fair Innovation

Maximize the Power and Potential of Employees

Double the productivity of our business activities

Employees are Kao's most important asset. To achieve Kao Group Mid-term Plan 2025 (K25), a major goal, Kao will accelerate innovation in the development of new businesses and products, with human capital of diverse backgrounds and expertise working together across divisions, countries and organizations to transform Kao into an organization that can maximize individual capabilities and unique personalities.

Introduction of OKRs

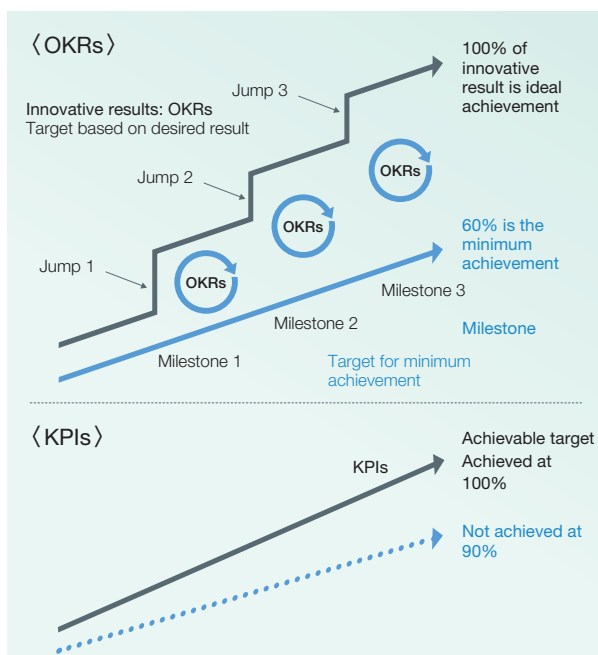
Characteristics of OKRs

Objectives and Key Results (OKRs) are intended to maximize organizational productivity, and are a management system designed to create a culture that brings out employees' willingness to take on challenges as the organization works together to achieve its goals.

The former human capital management system using Key Performance Indicators (KPIs) was predicated on aiming for 100% achievement of set targets. This tended to result in the establishment of realistic final goals well within the reach of most employees, a system that made it difficult for the organization to achieve truly innovative results.

OKRs, on the other hand, call for setting high final targets, regarding an achievement rate of about 60% as having reached the minimum goal, while 100% achievement is seen as having generated innovative results.

Comparison of OKRs and KPIs



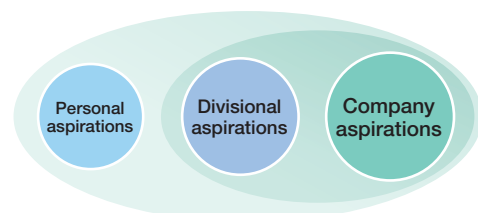
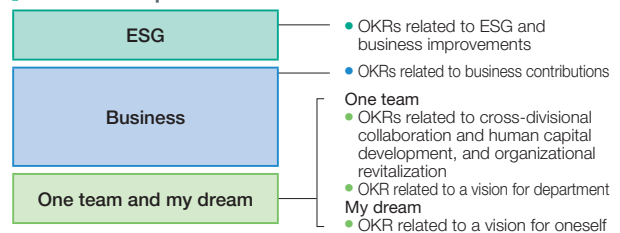
Objectives for Introducing OKR system

Kao's goals in introducing an OKR system are to draw out its employees' willingness to take on challenges and to maximize productivity. In the process of running this OKR system, we also hope to enhance management-oriented thinking among individual employees, while nurturing an open organizational culture. The OKR system encourages employees to challenge themselves to grow by considering OKRs from three, wide-ranging perspectives: their contributions to ESG, their contributions to business and their contributions to collaboration and work with other divisions ("One team and my dream").

We also aim to eliminate organizational barriers and nurture an open, flat organizational culture through efforts to make OKR-related activities more transparent, including posting OKRs set by individual employees on the company's intranet. We are also working to offer opportunities for those who strive to bring leadership to their activities, to build role models that cross divisional and national borders, and to facilitate dialogue between colleagues.

Through our OKR system, we as an organization will achieve the significant goal of reaching K25 by building a mechanism by which employees of similar aspirations can collaborate with one another and share their knowledge.

Three Perspectives of OKRs



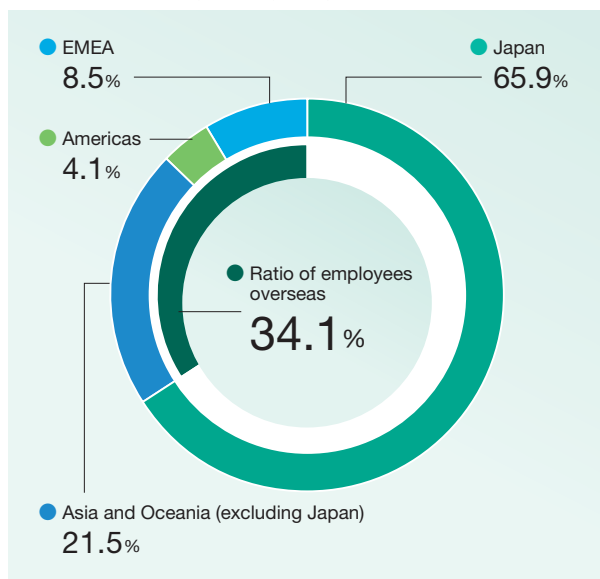
Co-creation by Diverse Human Capital with a High Degree of Specialization

Kao has sites located in 32 countries and regions around the world, conducting business in over 100 countries and regions. We believe that to achieve K25, we need to respect the diverse personalities and values of each of our more than 30,000 employees working in these countries and regions, create an environment that exercises their creativity, and accelerate innovation. Based on this understanding, and in accordance with the Kao Way—our corporate philosophy—and our Basic Guidelines for Human Capital Developments, we are engaged in proactive employee transfers and the creation

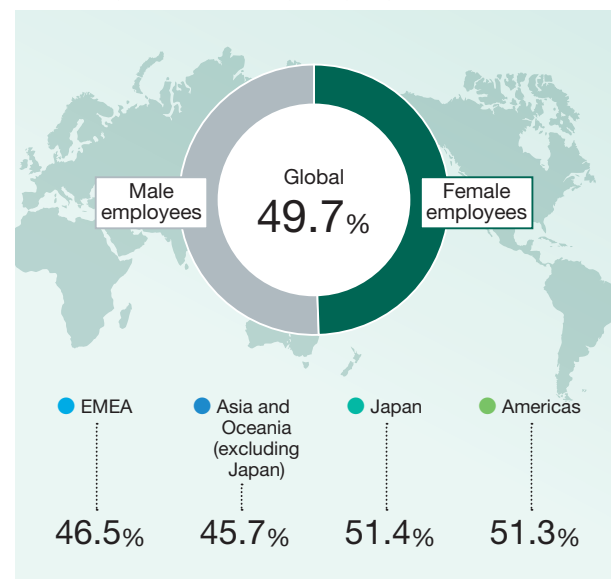
of a mechanism for multi-disciplinary collaboration across our entire global employee base.

In addition, to actively develop new businesses going forward, it is essential that we recruit specialized personnel with a high degree of knowledge in new fields, and collaborate with other companies that have advanced technology. We are currently promoting joint programs with numerous universities and companies. Going forward, we want to further enhance these collaborations and engage in proactive recruiting of specialized personnel from outside the company.

Ratio of Employees by Region (as of December 31, 2020)



Percentage of Female Employees by Region (as of December 31, 2020)



Productivity Improvements Using Digital Technology

Kao is working to maximize employee productivity by promoting digital transformation (DX) and advancing efforts to streamline a wide range of business operations.

The business environment has changed significantly with the spread of COVID-19. We see this as one opportunity for change, and are promoting a flexible work approach that allows employees to choose when and where they work according to the characteristics of their particular occupations and job responsibilities, and without limiting that choice to reasons such as the COVID-19 pandemic, child or family care needs. Going forward, we will pursue more highly productive

work styles by making visible how individual employees work, the hours they are active, and the ways they communicate.

We are working to improve the efficiency of data searches in the integrated search system we developed for our researchers in FY2019, securing the researchers more time by allowing them to pursue more creative, competitive R&D. In a new attempt to promote employee learning, we have also set up and continue to enhance a social media system (interaction site) where employees can share useful lectures and publications with one another.

Roundtable Talk by Executive Officers

Fostering a Corporate Culture That Encourages Taking on Challenges Globally

We regularly ask the question, “What should be the top priority of Kao for enabling unified action by our employees to address social issues and to guide us as a company with a global presence, valuable to society?” “Maximize the power and potential of employees” is the answer and the objective we thus set in the Kao Group Mid-term Plan 2025 (K25). To accomplish this, we will work actively to inspire a corporate culture that encourages employees to engage boldly in new endeavors without fear of failure through the implementation of our new Objectives and Key Results (OKRs)-based employee empowerment system. This roundtable talk features an exchange of ideas among Executive Officers who have extensive practical experience outside Japan on the topic of “developing our human capital and corporate culture.”

Roundtable Talk Participants



Yasushi Wada
Managing Executive Officer
Responsible for Legal and Compliance, Product Quality Management



Osamu Tabata
Managing Executive Officer
Responsible for Supply Chain Management



Hideaki Kubo
Managing Executive Officer
Responsible for Research and Development



Toru Nishiguchi
Managing Executive Officer
Responsible for Consumer Products, Asia



Satoru Tanaka
Executive Officer
Responsible for Consumer Products, Americas and EMEA



Mami Murata
Executive Officer
Responsible for Strategic Public Relations (Facilitator)

OKRs Are Attuned to Our Founding Spirit

—**Murata:** To achieve our target of making Kao a company with a global presence, valuable to society, it is essential that all of our employees set their sights high and that we have a corporate culture that emphasizes taking bold action. Such a culture is precisely what Kao’s founding spirit is all about—that is alive to this day. I believe our mission is to rouse our employees into that desire to achieve still greater things. I wonder what Mr. Nishiguchi thinks about the culture of initiative we have cultivated at Kao.

Nishiguchi: As I see it, the biggest risk is not trying out new things. One experience that has left a strong impression on me is from when I was in my 30s and I

If you don’t try anything new, you won’t make mistakes, but also nothing will change. The biggest risk is not trying out new things.

Toru Nishiguchi
Managing Executive Officer
Responsible for Consumer Products, Asia





I hope this new OKR framework gets a lot of employees excited and inspires them to think, “Let’s go and do this!”

Yasushi Wada
Managing Executive Officer
Responsible for Legal and Compliance, Product Quality Management

was working on *Bioré* as a marketer in Japan. Today, *Bioré* is a mainstay for Kao and has become one of our megabrands, but back then, I tried dozens of different things, and while there were a few hit products, there were also a lot of failures. Nevertheless, the culture around me was such that if I went to my boss and said, “This is what I want to do,” he would give me that chance. So, if you don’t try anything new, you won’t make mistakes, but also nothing will change. I have seen the rapid changes that has taken place in Asia, and I am keenly aware of how crucial it is to always seize opportunities and take action. First, let it be known “this is what I want to do,” and then take it on. The key from that point forward is for the boss to provide strong support in a spirit of co-creation, thereby setting the framework to make it happen.

Wada: That’s the number one goal of our new OKR system—we are aiming to inspire a culture that supports bold steps. We need to be the kind of company that makes our employees excited to be working for Kao if we want to have the best people around the world. I hope this new OKR framework gets a lot of employees excited and inspires them to think, “Let’s go and do this!” The focus is not on whether an attempt fails or succeeds. Rather, the idea is to encourage self-initiative by focusing on the process of how to get something done. By bringing together individual and organizational goals, a spirit of teamwork emerges that transcends section or department. And celebrating that initiative and teamwork will contribute significantly to the advancement of Kao, which I look forward to seeing.

Tanaka: I am responsible for the business in the Americas and EMEA, and I think our employees in many countries have a favorable view of the OKRs implementation. There is a robust entrepreneurial spirit in the Americas and EMEA. Every year our people are looking for new challenges to undertake, and if their proposals are blocked, they lose motivation. I think it is vital that leaders believe in local staff who understand their business situation very well, then create a mood that empowers entrepreneurial spirit and join them in planning and taking action. OKRs set high goals, which makes people less susceptible to getting caught up in short-term tasks and distracted by lesser goals. This will elevate engagement levels among employees.



It is vital for leaders to create a mood that empowers the entrepreneurial spirit and then to join staff in planning and taking action.

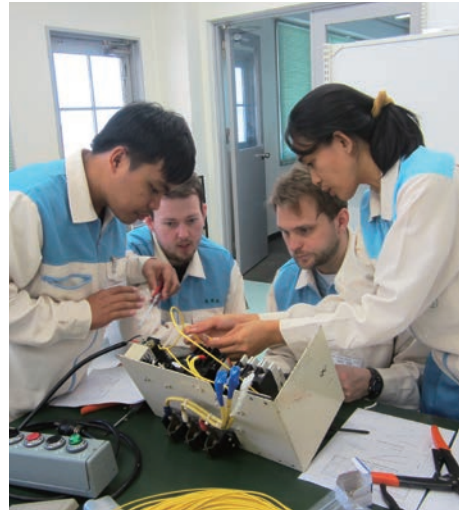
Satoru Tanaka
Executive Officer
Responsible for Consumer Products, Americas and EMEA

Fostering Human Capital Who Can Play an Active Role Globally

Nishiguchi: We have lots of highly capable and energetic people in production facilities outside Japan. You’ll often find they are alumni of the Kao Techno-school. This is especially true of those at the level of plant manager. I was deeply impressed by their loyalty to Kao. That training program has been going on for over 30 years now.

Tabata: Individuals selected for the Kao Techno-school training are usually anxious at first about coming to Japan, but after completion of the eight-month training period they return to their country transformed and matured. They pick up more than technical skills. They have the chance to absorb the spirit of craftsmanship that Kao maintains and has tried to imbue over the years,

Roundtable Talk by Executive Officers
**Fostering a Corporate Culture That
 Encourages Taking on Challenges Globally**



Today there are over 1,000 alumni of the Kao Techno-school, which started in 1989. A residential training course for front-line production technicians aged 35–40 selected from domestic and international production facilities. The aim of the program is to train people to be core members of production teams. Over a period of eight months, individuals develop character and judgment (mentality), and acquire wide-ranging specialized knowledge and technical skills (craftsmanship).



Working with non-Japanese staff on achieving some goal together is an experience that will later lead to new ideas and technical development.

Hideaki Kubo

Managing Executive Officer
 Responsible for Research
 and Development

and I think this allows each person's confidence to grow. When a younger generation sees how their leaders have grown, they also want to go to train in Japan if given the chance. So it becomes a positive cycle that encourages self-development.

Tanaka: To be a company with a global presence, valuable to society, we must think more seriously about how our employees outside Japan build their careers, and how we can help drive their growth. Another issue

involves when Japanese employees go to another country to gain practical experience overseas but then come back to Japan and are unable to form a career plan, losing ambition without ever having made use of their experience. The company may be partially to blame for not giving such employees with overseas experience avenues for growth, in which case some reevaluation is required. One way to integrate such individuals is to recognize who has a strong inclination to work outside Japan, give them the opportunity to gain overseas experience while still young, then several years after returning to Japan again give them experience in a management position. Individuals with overseas experiences in different positions will become global-minded players who can be useful in many ways.

Kubo: When a Japanese employee is stationed in another country, even if they are young, the posting comes with heavy responsibility and hardship, as they must play several roles but it also provides an opportunity to have direct discussions with management at the Head Office. Overall, the experience is quite valuable and helps the individual to mature quickly. In my own experience, the project I joined outside Japan was in a research field completely separate from my previous experience. But working with non-Japanese staff on achieving the same goal was an experience that later led to new ideas and technical development. There were times I struggled to communicate with people who came from a different background from my own and who had different ideas

and values, but it was a great learning experience.

Nishiguchi: I want to give a chance to employees who strongly wish to work outside Japan even if they are unconventional individuals or are worried about their low language skills or have a somewhat low TOEIC score, just as I was given a chance, so that they may one day create a breakthrough into the global marketplace.



Members having an engaging discussion. We aim to create a corporate culture in which employees set ambitious targets and strive to achieve them.

New Economic Value Will Emerge from a Spirit of Open Innovation

—**Murata:** To grow globally, we must engage in new ways that transcend the framework of the corporate.

Without needing to rely solely on what we come up with ourselves, we can gain new economic value and open up opportunities through M&A.

Osamu Tabata
Managing Executive Officer
Responsible for Supply Chain Management



By integrating capabilities obtained externally and receiving that spark of energy, Kao will grow more around the world.

Mami Murata
Executive Officer
Responsible for Strategic Public Relations
(Facilitator)



Wada: Going forward, we need to hire greater numbers of highly capable people from outside and bring them into our team where they can do good work. Conflicts may arise because of that, but pairing things of dissimilar nature gives rise to innovation. While breaking out of one's shell is vital, incorporating fresh knowledge that new talent from the outside bring and creating new combinations are also things Kao needs. All you need is one or two successes to serve as a model and I'm sure there will be people who study that and will want to try something new themselves. What is important is not simply to put people to work and get business going with the same portfolio but to dynamically create a new Kao.

Tabata: There's no need to rely solely on what we come up with ourselves anymore. We can cooperate with local partners to expand mutually. Another way to boost economic value and open up opportunities would be through M&A that can bring in new talent, technologies, customers and work arrangements.

—**Murata:** Integrating strengths acquired from outside will stimulate Kao's employees and greatly invigorate the company. If such a scenario can be achieved, Kao would surely be able to make tremendous leaps forward on the world stage. To make ourselves an essential company in a sustainable world, we should not be going it alone but rather building partnerships with all kinds of cooperative firms to walk that path together. That's what I'm looking forward to. Thank you all for your input today.

Toward Achieving the K25 Goals



Shifting to a business model aimed at demand creation

Toshiaki Takeuchi

Senior Managing Executive Officer,
Representative Director

Changes in Conditions Affecting Business and Consumers' Purchasing Behavior

Our business environment continues to change rapidly. Digital technologies have penetrated a wide range of areas and different aspects of daily life over the last few years. The COVID-19 pandemic has led to a further acceleration of this digital shift, and there have been dramatic transformations in people's lifestyles. People are spending more time at home, which increases their exposure to digital technology in a wide range of areas, from online shopping to business and entertainment. At the same time, digital and cashless payment systems are being introduced in physical stores in the interest of hygiene as people try to avoid all unnecessary physical contact.

In markets and distribution as well, we find changing conditions—accelerating growth in e-commerce, increasingly borderless markets, digital communication efforts in offline channels, retail concentration, the rise of new business models such as subscription models and new entrants from different industries, and the advent of physical stores that focus on the personal and physical

experience, offering a seamless integration of offline and online retail.

Consumers live within a vast universe of information, which has a significant impact on their consumption behavior. The main segment of society that has led consumption to date has been the Baby Boomer generation and the children of Baby Boomers. That is now shifting to Millennials who have a family of their own. Millennials are digital natives with high information literacy. They are accustomed to online shopping, including C2C options using social media, flea markets apps and the like. Their generation values a sense of identification with brands, and personal experience. A generation with these values will gather information from the internet and via word of mouth, and compare products and services both offline and online to purchase what suits them best. Afterwards, they are likely to post or share information on their experience. This kind of purchasing behavior easily crosses the boundaries between real-world and online experiences.

Promoting One-to-One Marketing and ESG-driven Sales Activities

To adapt to these myriad changes in business conditions, we cannot rely on a business model such as O2O

(online to offline) that regards online and offline spheres as disconnected. Rather, we need to implement one-

to-one marketing based on the strategy of OMO (online merged with offline), which seamlessly combines the two worlds—using, for example, digital technologies to gather information and for payment. This approach aims to utilize vast amounts of collected digital data to deliver high-value-added products to individually targeted consumers. Moving forward, I feel it will be necessary to change our business model and start making a concerted push toward one-to-one marketing. Another major social change taking place is the worsening of issues affecting society, including environmental problems. The global community is putting pressure on corporations to face these issues head on and embrace social responsibility.

Kao will take further steps to promote sustainability in society by incorporating an ESG perspective into our sales activities. We have already been working with various stakeholders on efforts to transition to zero waste in our supply chain, along with many other initiatives, including improving distribution efficiencies to reduce environmental impact and improve working conditions for delivery workers.

To deal with environmental and social issues in the supply chain overall, which is difficult to do with our company's systems and structures alone, I am convinced that we can work together with stakeholders on initiatives that will shape a sustainable society to bring mutual prosperity.

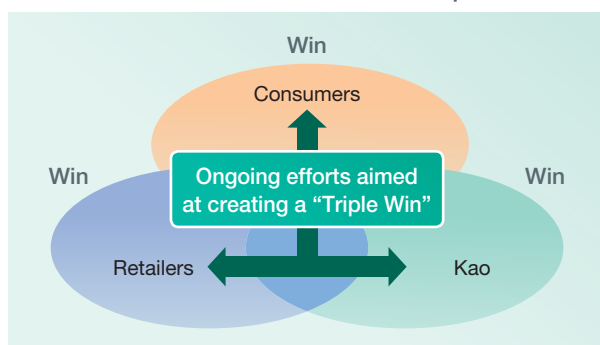
Transforming into a Demand-Creating Business That Co-creates Value with Stakeholders

Amidst the swirling changes in our business environment, Kao must continue to provide new value to consumers and maintain sustainable development as a corporation. Many of today's issues can no longer be successfully addressed by an "issue-focused" business model that involves identifying issues based on analysis of historical data and on experience and then proposing solutions to these issues. What is needed now is for the enterprise to continue to transform itself while making a dynamic shift toward a "demand-creating" business model that is forward-looking and seeks to generate new demand by identifying the kinds of novelty and brand empathy that resonate with consumers. Through Kao's one-to-one marketing and ESG-based sales activities, we will transform our sales to a demand-creation business model. Shifting to this business model will deepen our commitment to providing value in Kao's core businesses and make possible an expansion into new territory, which will lead to the kind of enterprise we have set out

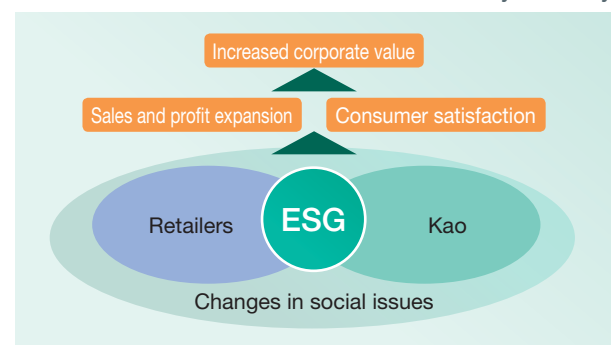
be in the Kao Group Mid-term Plan 2025 (K25). The demand-creating business model only starts to become achievable when we co-create with various stakeholders. We will pursue co-creation both with retailers who know consumers well and with global e-commerce platforms to carry out bona fide one-to-one marketing that reaches each consumer individually. Also, by co-creating with stakeholders in the supply chain, we will be able to address complex social issues that affect the industry as a whole, which would be difficult to do alone, and contribute to realizing sustainability in society.

This is the "Triple Win" model that achieves sustainable development not only for Kao, but for stakeholders as well, and provides new value to consumers. We will make this shift to a new business model, adapting to extraordinary societal change as a nascent enterprise—as "New Kao."

Evolution of Collaborative Relationship



Co-creation with retailers to realize sustainability in society



Toward Achieving the K25 Goals



Focus on Developing New Businesses and Reforming Existing Businesses

The Consumer Products Business has launched the Another Kao project to promote new businesses tasked with achieving major growth in the future, and the Reborn Kao project to reform existing businesses looking to the world post-COVID-19, in order to achieve the Kao Group Mid-term Plan 2025 (K25) objective of transforming to build robust business through investment. To work toward this objective, we are revising our organizational management and innovating our brand management.

We have created the new Life Care Business to realize our vision of Another Kao. We started our soap business with our corporate motto, “Clean citizens prosper,” and expanded our business to encompass cleanliness, hygiene, health and beauty. In today’s world where living to 100 is more common, we aim to further expand our business through our new challenge to establish Life Care Business that supports healthy life expectancy so that people can lead happy and fulfilling lives over their entire lifetime. The Life Care Business brings together technologies for safeguarding health that we have built up over many years and develops physiological monitoring technologies as well as makes

proposals for Precision Life Care personalized for individual circumstances.

In our pursuit of Reborn Kao, we have reorganized the Consumer Products Business into three fields centered around our corporate citizenship: the Hygiene and Living Care Business, which delivers Kirei in our interactions and everything our lives touch; the Health and Beauty Care Business, which delivers Kirei to make consumers’ lives better and brighter; and the Cosmetics Business, which delivers inspiration and Kirei to individual consumers. In each of these business fields, we will deliver new solutions for daily living for all people by pursuing cross-functional marketing from the standpoint of consumers’ life value.

At the same time, we will reform our businesses, which have grown to have multiple brands under a silo-type management system. We will clarify the role of each brand and shift to a more dynamic, optimized management system to achieve more efficient brand management.

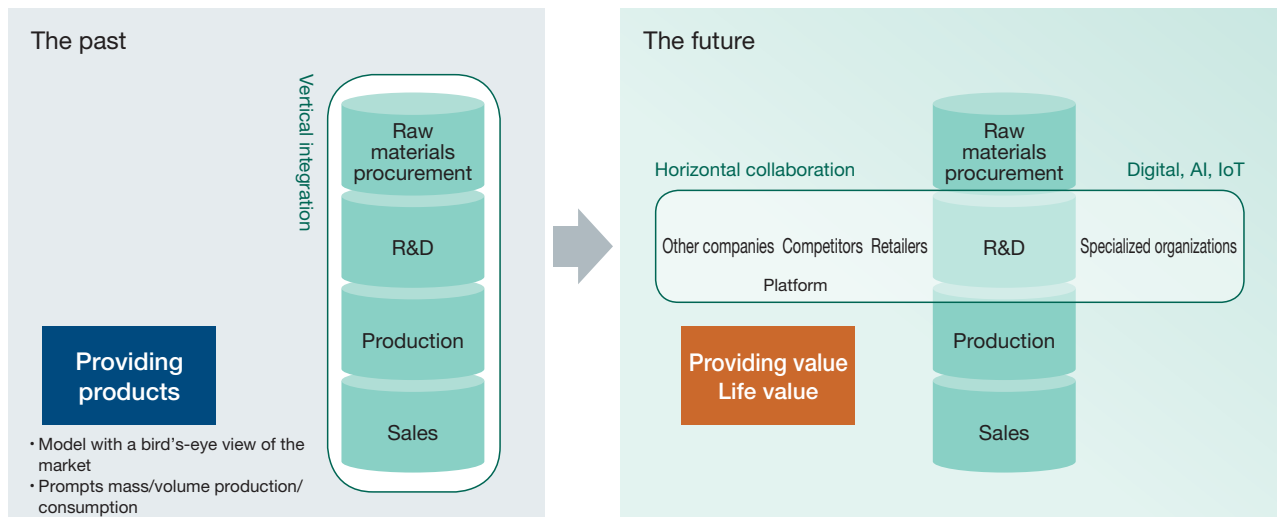
Promote Consumer-focused, Personalized Marketing

As consumers become increasingly interested in sustainability and society rapidly shifts to digitalization, we need to shift our business model from a vertical integration model optimized for mass consumption to a horizontal collaboration model that promotes co-creation and collaboration. To do this, we will partner with many outside organizations and companies and build a digital platform to serve as a conduit for new consumer information. Then using this new business model, we will further advance Life Value Solution Marketing, meaning marketing that originates from the concept of life value instead of the concept of products.

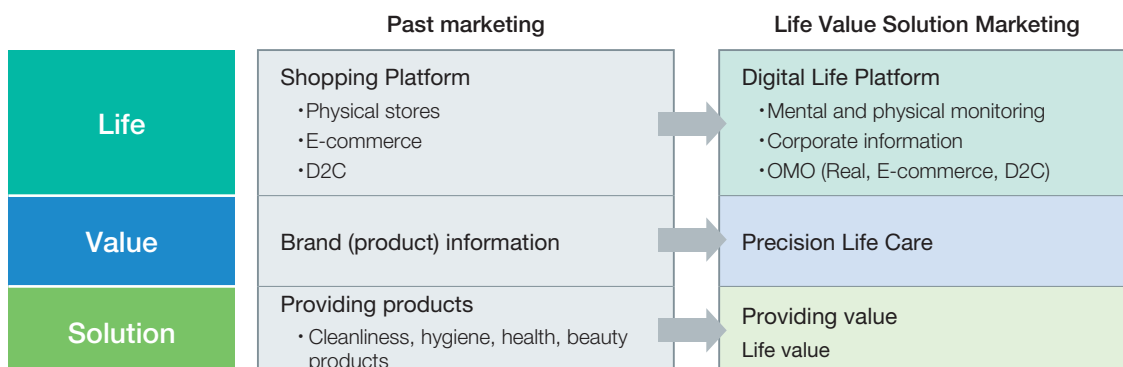
To achieve this, we also established the new DX Co-Creation Center to ramp up our internal digital transformation (DX) activities, and the new Product Business Development Center to advance our ESG-driven *Yoki-Monozukuri* to realize sustainability in the world. Through both of these centers, we will shift our marketing, which has traditionally been conducted for the main objective of communicating product value, to marketing with a focus on personalization that offers value for the individual consumer.

The Consumer Products Business will take on these bold challenges so that we can achieve K25.

Business Model Reform



Life Value Solution Marketing Approach

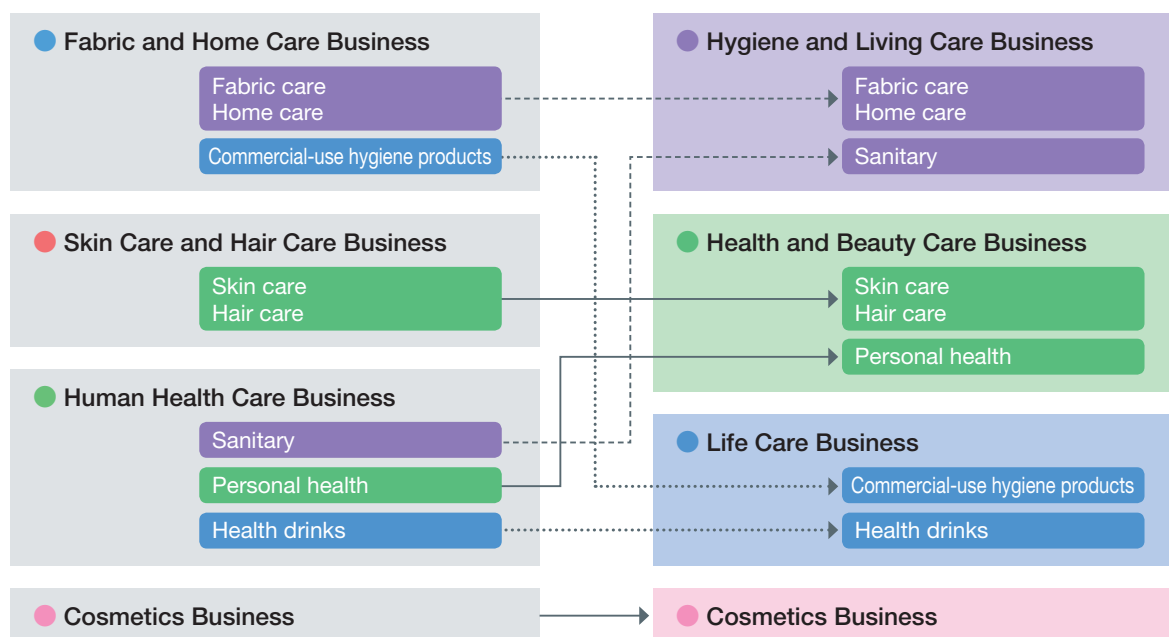


Reorganization of Business Segments

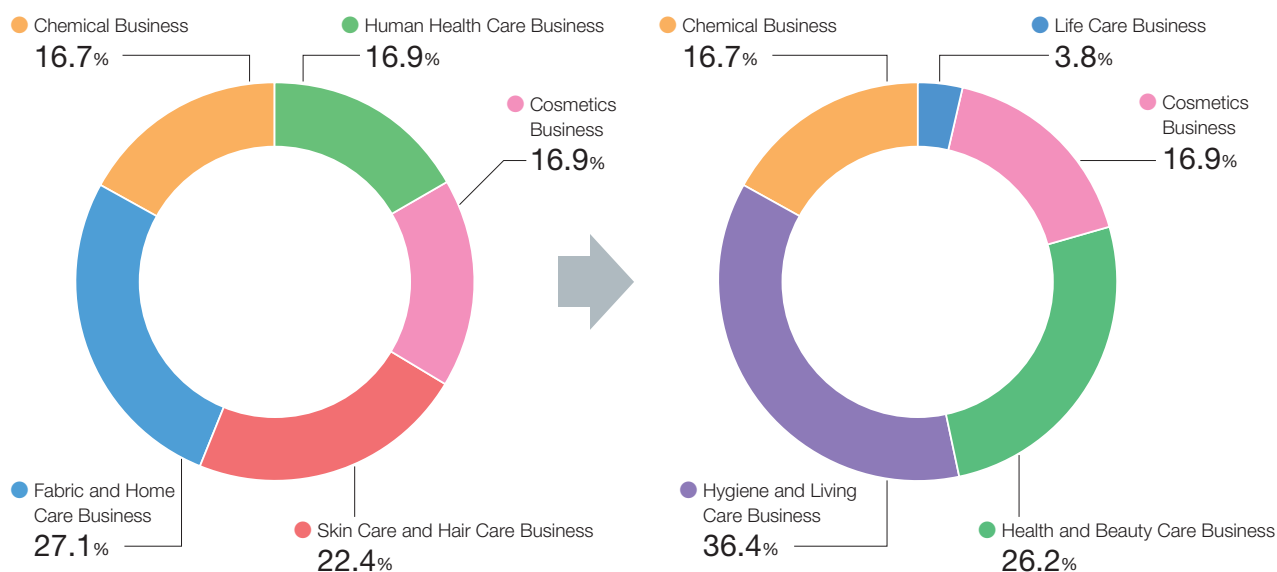
Aiming to clarify the social issues for which actions should be prioritized and build a model that contributes solutions to issues in each business segment, Kao reorganized the Consumer Products Business in January 2021. Kao develops its Consumer Products Business in four of its fields of business: Hygiene and Living Care, Health and

Beauty Care, Life Care and Cosmetics. In our Chemical Business, we develop a wide range of products that meet the various needs of industry. Kao believes that through these businesses we can contribute to the wholehearted satisfaction and enrichment of the lives of people throughout the world.

Consumer Products Business Segment Reorganization



Sales Composition (FY2020)



Consumer Products Business

Hygiene and Living Care Business

We offer products that support people's daily lives and society while contributing to greater comfort, including fabric care, home care and sanitary products. People's lifestyles and values continue to change, and we will help achieve comfort for people around the world by providing cleaning and hygiene products that enable everyone to live with peace of mind.

Health and Beauty Care Business

We offer skin care, hair care, and personal health care products that provide Kao's distinctive value, which is focusing on the entire human body to contribute to healthy beauty and hygienic cleanliness. Here, we will deliver products that can help consumers continue a daily routine of hygienic habits and physical and mental care that can lead to a brilliant life without special effort. In this way, we help achieve truly healthy living where people around the world can freely express their individuality.

Life Care Business

We seek to pursue new businesses that protect human lives by fully utilizing the fundamental technologies that have supported Kao. We provide high-performance products realized through our extensive research and development efforts, as well as high-precision life care solutions optimized to individuals using our monitoring technologies. As a result, we support well-being in both mind and body while raising the standard of consumer life care.

Cosmetics Business

We stay attuned to the beauty and individuality of each person, and draw upon both solid science and our abundant sensitivity as we offer skin care and makeup products to provide "hope" and "Kirei" to consumers. These activities create social values allowing us to provide a culture of joyful living through beauty, and we will continue to help realize a society where everyone can shine.

Chemical Business

Chemical Business

The Chemical Business offers an expansive array of products globally to cater to diverse needs in a wide range of industrial fields, such as oleo chemicals manufactured from natural fat and oil, performance chemicals such as surfactants, and specialty chemicals such as toners, toner binders and water-based pigment inkjet ink. We help pave the way to the future of industry while realizing a sustainable society by providing innovative products and solutions.

Growth Strategy by Business Segment

Hygiene and Living Care Business

Kirei in our interactions and everything our lives touch

[Main Products]



Strengths

- Fabric care and home care products with many leading brands
- Sanitary products enjoy deep-rooted popularity in Asia
- Diverse range of technologies supporting cleanliness and hygiene in daily life

Opportunities

- Growing needs for clothing and home hygiene globally
- Increased environmental consciousness
- Advancement of women in society, falling birth rates and aging populations

K25 Strategy

1 Offer products that deliver clean and comfortable living

Strengthen cleaning and disinfecting products for clothing and the home to meet needs for growing hygiene awareness

By offering products and services that keep clothing and home spaces clean and lessen the burden of housework, we contribute to creating living spaces where everyone can live with peace of mind.



Offer sanitary products for each life stage

We offer sanitary products for each life stage so that everyone can lead their lives how they wish at any age and in comfort no matter what the situation.



2 Further strengthen leading brands

Create strong brands that are loved globally

We are proactively leading efforts to reduce plastic consumption and the use of chemical substances. We will strengthen our ties with users through leading brands that are essential to daily life, and create strong brands that are loved globally.

3 Strengthen regional expansion

Strengthen product development to meet local needs in Asia

We build trust with consumers by developing products with a focus on the needs in various countries and conducting awareness-raising activities, and establish business that supports the foundation of daily living in Asia.

Growth Strategy by Business Segment



Health and Beauty Care Business

Kirei that makes life shine

[Main Products]



Strengths

- Global business development of skin care, hair care products and products for hair salons
- Diverse range of technologies for hygiene and environmental needs
- Many leading brands

Opportunities

- Higher level of prevention and personal hygiene practices amid the COVID-19 pandemic
- Needs to care for damage as a result of climate change
- Increased awareness toward environmental consciousness
- Increased awareness of health care

K25 Strategy

1 Offer solutions that improve Quality of Life (QOL)

Provide a wide range of products and information to offer value unique to Kao that covers all aspects of people's daily lives

We offer a wide range of health care, skin care and hair care products to meet personal needs in many facets of daily life. We are striving to strengthen our solutions that have global demand. And we are strengthening our development of competitive products to expand the areas in which we offer solutions.



Offer products and information in response to increased awareness of health care

Along with protective and preventive measures to safeguard against external factors such as infectious diseases and UV rays, we also offer products and information able to boost the immune system and are developing ways to care for environmental stresses and create safety and reassurance in daily life. We are strengthening product development that gives consideration to environmental and social issues.



2 Strengthen global business development

Strengthen skin care, hair care products and products for hair salons that are available globally

We are striving to further strengthen our business development outside Japan through megabrand *Bioré*, brands for hair salons and more.



Main brands available in Europe and the Americas



K25 Strategy

1 Offer Precision Life Care solutions

Utilize monitoring technologies to offer solutions optimized for individuals

With the help of AI, identify customers' true needs that even they are not aware of from a large quantity of observation data obtained in monitoring their physical and mental state, and deliver "optimum solutions matching the true physical and mental needs" of a diverse range of individuals.

2 Expand the business domain from health drinks

Expand the target business domain from health drinks to life care

Based on technologies built up in the existing businesses, expand the business domain beyond prevention of lifestyle diseases targeted by *Healthya* to include geriatric syndromes arising with super-aged societies, treatments for patients suffering from refractory diseases, and sanitation of home environments to prevent the spread of

ヘルシア

3 Develop the self-treatment business —

Realize self-medication that fits consumers' lifestyles

Aiming to realize well-being in daily life and in view of the nature of issues consumers face, take steps to realize self-medication that consumers can begin and continue without difficulty.

4 Strengthen outside collaboration —

Advance co-creation and collaboration with various stakeholders

Through cross-collaboration with like-minded companies, research institutions, public-interest groups, local governments and others, we will engage in accelerated co-creation that produces greater value in everyday life.



© Bodygram

5 Strengthen the commercial-use hygiene products business —

Offering total solutions using advanced technologies including cleaning, antibacterial, odor removal and other technologies

We provide solutions through a wide range of products, services and information that meet the actual needs of professional workplaces such as restaurants and other food service industry, hotels and other types of lodging facilities, medical institutions and nursing facilities. We are strengthening business development not only in Japan but globally. We contribute to people's safety with a focus on hygiene and sanitation.



セイクーブ

パフォーミ

ハンド
スキッシュ
EX

Growth Strategy by Business Segment



Cosmetics Business

Inspiration and Kirei for all

[Main Products]



Strengths

- Evidence-based, in-depth insights into skin
- Original state-of-the-art technologies (Fine Fiber, RNA Monitoring)
- Power to communicate makeup trends
- Customer identification with functionality and brand purpose

Opportunities

- New skin awareness and makeup use arising from new lifestyle habits
- Mid- to long-term global market expansion
- New purchase and trial experiences made possible with advances in digital technology

K25 Strategy

1 Accelerate brand enhancement

Optimize the brand portfolio

We are improving and elevating 11 global strategic brands (G11) available globally and 8 regional strategic brands (R8) available mainly in Japan to be purpose-driven brands that individual customers view as essential to their lives.



2 Advance the digital transformation (DX)

Create new user experiences

Through digital transformation (DX), we are strengthening our customer engagement by offering new customer experiences with seamless online and offline integration.

3 Accelerate global development

Strengthen business development in China and Europe

We are strengthening our business in the Chinese market by building on our prestige brands, and our implementing a discontinuous growth strategy in the European market.



4 Strengthen business operations structure

Promote integrated operations of the Cosmetics Business

We have reorganized the Cosmetics Business to align with our growth strategy. We are striving to make full use of our assets, including expertise, know-how and human capital, and respond more quickly to change.



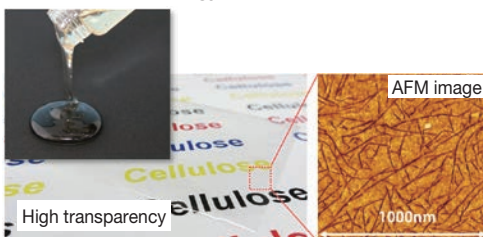
Growth Strategy by Business Segment

Chemical Business

Through the power of chemistry,
a future of Kirei for people, society and the planet

[Major eco-technology developments]

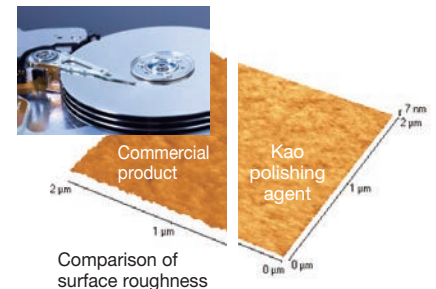
- The “ultimate eco-material,” cellulose nanofiber dispersion technology



- Hardening technology to prevent cement from contaminating water



- Polishing technology that offers precision surface control at the nano-level



Strengths

- Original, distinctive product portfolio
Oleo Chemicals, high-performance fat and oil derivatives, Specialty Chemicals
- Ability to offer business solutions for a wide range of industrial fields
- Synergies with the Consumer Products Business
- Business foundation that enables global growth

Opportunities

- Growing needs for environmental and social responsiveness
- Expanding social expectations for product safety and security, hygiene and health
- More advanced digital technologies and their expanded use
- Economic development in emerging countries

K25 Strategy

1 Expand strategic businesses

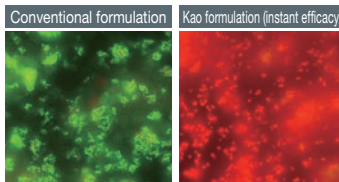
Strengthen solutions for environmental and social issues with original technologies

● Disinfection/cleaning

Disinfection and cleaning business through integration of surface and microorganism control

- Formulations with reduced use of chemicals
- Immediate results • Long-lasting efficacy

Disinfectant treatment 10 sec exposure



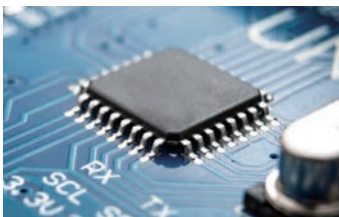
[Green] Live bacteria

[Red] Dead bacteria

● Semiconductor

Process agents and materials business contributing to advanced semiconductors

- Precision polishing agents • Etching agents
- Cleaners • Insulating film materials
- Photoresist strippers



● Agriculture

Agrochemical business making increased food production possible while preserving the environment

- Reduced use of pesticides • Disease prevention
- Plant activators • Soil improvement



● Industrial inkjet printing

Environmentally-conscious ink business for industrial digital printing

- Colorants
- Inks
- Print head modules



● Road/tire

Road additives business to extend the service life of asphalt, chemically recycle waste PET and reduce environmental load with low-temperature processes

- Additives for pavement with higher durability
- Tire additives



2 Strengthen growth foundation

Strengthen priority regions, collaborate with other companies, accelerate digitalization

● Accelerate growth globally

- Expand business in major markets including Europe, the United States and China
- Create the business foundation in emerging countries

● Strengthen development of strategic businesses

- Expand business in the industrial printing field strengthened through M&A
- Take action on global-scale social issues through value co-creation with cooperating companies

● Strengthen communication and points of contact with customers, accelerate product development

- Promote co-creation by globally communicating our diverse array of distinctive technologies
- Innovate business by actively introducing digital technologies

Roundtable Talk by Business Division Heads

Implementing ESG-driven *Yoki-Monozukuri** in Our New Business Division Structure

Kao promotes the concept of “Kirei—Making Life Beautiful” and is implementing ESG-driven *Yoki-Monozukuri* to contribute to the sustainability of society. To accelerate this effort, business divisions were reorganized in January 2021 from the perspective of contributing to society. In the roundtable talk, the heads of these business divisions discuss their commitment.

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

Roundtable Talk Participants



Yoshihiro Murakami

Managing Executive Officer
Responsible for Cosmetics Business, DX Co-Creation



Akira Shimotoyodome
Executive Officer
Responsible for Life Care Business



Kotaro Nuriya

Executive Officer
Responsible for Health and Beauty Care Business



Natsumi Hotta

Executive Officer
Responsible for Hygiene and Living Care Business



Masahiro Katayose

Executive Officer
Responsible for Chemical Business



Mami Murata

Executive Officer
Responsible for Strategic Public Relations
(Facilitator)

Facing Consumer Individuality and Deepening Ties to Consumers

—**Murata:** COVID-19 has changed the world. During the year of the pandemic, we were forced to rethink the meaning of Kao’s existence and ask how we can help people in their lives and address social issues. Kao Group Mid-term Plan 2025 (K25) was launched under these circumstances. The Consumer Products Business was reorganized significantly, so please tell us about the plans you have in your respective divisions.

Murakami: The Cosmetics Business launched a new growth strategy in FY2018, and since then we have been taking steps aimed at brand enhancement.

Behind this effort is a desire to deepen our ties to consumers for each brand. We respect the lifestyle of every consumer and want to create a brand that suits

Celebration of Individuality

We want to give inspiration and offer Kirei to everyone by creating a brand that suits people’s individuality.



All of us first need to feel excited, and then we can make consumers feel excited and lead them to a better place in the future with the sentiment, “Let’s create places that offer adventure.”

Yoshihiro Murakami

Managing Executive Officer
Responsible for Cosmetics
Business, DX Co-Creation

people’s individuality which they can use throughout their lives. We want to provide inspiration and offer Kirei to everyone. There are as many forms of beauty as there are people, and that is the idea expressed in “Celebration of Individuality.”

The Cosmetics Business Division and related companies were reorganized in FY2021 and we are now moving ahead with integrated operations among the business division, sales companies and beauty experts. Around 10,000 Kao members work in the Cosmetics Business, and we had thorough discussions about how to create a new collective culture. The concept we settled on was “Play Park.” It is based on the idea that if we are going to make consumers feel excited, the members of the Cosmetics Business first need to feel excited and create places that offer adventure and invite people and the future to reach a better place.

—**Murata:** The boundaries between business domains that Mr. Nuriya and Ms. Hotta are responsible for have shifted. What approach are you taking to manage your new business division?

Nuriya: The Health and Beauty Care Business absorbed skin care, hair care and health care, so it has become a business that cares for “the whole body” of consumers. I feel that Kao has distinctive capabilities to propose ideas spanning the entire day for individual

lifestyles that no other company has. With the new business structure, we all came to recognize what we had only intuited before—that issues treated separately in different fields are actually connected. Looking ahead, we want to offer new division solutions, such as in improving hygiene and boosting the immune system.

The key to success in those endeavors will certainly be to understand consumers’ lifestyle patterns more fully. It is not enough simply to observe, to ask questions and gather data. The key point is to understand deeply the needs of each person. It is essential that we find out what people’s dissatisfactions and under-the-surface frustrations are and resolve them. People are now living to the age of 100, so we will attempt to uncover those latent needs and develop solutions to allow people to lead long, healthy lives.

Hotta: The Hygiene and Living Care Business brings fabric care and home care together with sanitary products.

What these three have in common is that they are essential to people’s lives wherever you go in the world. By working in this essential business, which handles products that people cannot live without in their daily lives, we are fulfilling our own mission of supporting infrastructure for life and society. By creating products that consumers feel confident using and communicating useful information, we want to build brands that are trusted and loved by consumers and

By working in this business that handles products essential to people’s lives, we are fulfilling our own mission of supporting infrastructure for life and society.

Natsumi Hotta

Executive Officer
Responsible for Hygiene
and Living Care Business



Roundtable Talk by Business Division Heads
Implementing ESG-driven *Yoki-Monozukuri*
in Our New Business Division Structure

become the No. 1 in their category. We are also open to working with companies that have unique strengths that complement Kao's to win over new fans and accelerate the speed of product development through collaboration.

—**Murata:** The common thread through all of our businesses is deepening connections to consumers and customers. In the Life Care Business, we are developing new areas of business that further involve life issues.

Shimotoyodome: The Life Care Business has been organized to realize the K25 vision of “Becoming a company that saves future lives.” I joined Kao as a researcher and have always wanted to contribute to people's health. That intention has not changed with my move to the business division.

What Kao needs from this point forward is to incorporate the viewpoint of individuality in health care. Up to this point, we have viewed all living organisms homogeneously at the cellular level. But if we consider that every person is an individual, then life can be thought of as a huge mass of individuality. I would like us to anticipate future risk and change with precision—derived from things like consumer individuality and lifestyles—so as to provide optimally personalized products and services to everyone.



Aiming to Break Away from Just Manufacturing and Becoming a UX Creation Company

—**Murata:** Our newly developed digital transformation (DX) strategy is getting a lot of attention both within and outside the company.

Murakami: The meaning of DX, to state it bluntly, is to stop thinking of the company as a manufacturer and instead see ourselves primarily as a user experiences (UX) creation company. We are aiming to provide the value of personalized experience to people by adding value to products in the digital realm. For example, in the Cosmetics Business in FY2021, we established the *Kate Makeup Lab.* service on *Kate's* official social media account. The purpose is to provide content that supports each person in expressing with makeup how they want to appear. Kao is using its strengths in combination with cutting-edge technologies to provide unique experiences to its many users.

The basis for the value we provide is nothing other than what we know. As Mr. Nuriya said, I feel that Kao's strength is understanding its consumers well. And although it is important to get to understand them in a close and direct way using analog methods as we have always done, times are changing and our methods must adapt. Going forward, it will be vital to get to understand them using digital technologies. That will likely mean the monitoring technologies that form a central part of K25.

Shimotoyodome: Yes, the ability to manage the information we collect will become ever more important. Up to now, we have tended to identify Kao as a manufacturer—a company that processes materials into products. But going forward, how well we can convert information into value will be crucial. If we are able to transform the asset of collected data rapidly into business value in this age of overwhelmingly large amounts of data, the Life Care Business is sure to prosper.

ESG-driven *Yoki-Monozukuri* Contributes to the Sustainability of Society

—**Murata:** ESG-driven *Yoki-Monozukuri* will be essential to achieve sustainability throughout society.

It is important to create a business model that makes the customer, society and Kao all happy.

Masahiro Katayose

Executive Officer
Responsible for Chemical
Business



With its industry-facing global endeavors, where is the Chemical Business placing its energy?

Katayose: For many years we have been providing useful solutions for the E (environment) and for S (society) through eco-chemical products and innovative technologies. The COVID-19 pandemic intensified existing uncertainties, and major market changes occurred, so we anticipate a multipolar shift—including markets that have ever-growing demand alongside markets that shrink and cannot bounce back. In such circumstances, we want to especially focus on utilizing Kao's technological assets. The Chemical Business also develops raw materials for the Consumer Products Business, and has therefore contributed to their increased competitiveness. We feel that it is possible to promote the technologies globally that we have built up, such as in the Americas and Europe.

I would like to work with Ms. Murata on the PR strategy for this. Even though this is the B2B business, more widely promoting our contributions to sustainability in the world will still be important going forward. Taking a “Business to Society for Sustainability” approach, we can properly promote our mission and become the kind of company that is trusted by society and customers.

—**Murata:** An important role of PR activities is to understand each other's way of thinking and to find others with whom you can build a better future through

improved communication. So, let's work together, for sure.

Hotta: The Fabric and Home Care Business has grown out of continued E (environmental) and S (social) initiatives. For example, the feat of downsizing and concentrating laundry detergents grew out of the pursuit to eliminate waste in packaging design and transport efficiency, and led to reducing E and S impacts. Going forward, it will come down to how we can demonstrate new value with *Yoki-Monozukuri*.

That will require seeing consumers in a new light, I feel. Take market surveys in home care products, for example. We tend to target women, who are the main users of Kao products. But in many households both adults work, while more seniors are living alone. We need to conduct research from the viewpoint of how to truly help people who need it, and by so doing we can gain support from more people.

Murakami: In the Cosmetics Business, while E (environmental) is of course important, I feel that S (social) is quite a key perspective. Each brand has to have a clear purpose, namely what its presence in society stands for, and business activities need to be based on that.

A good example is *Curél*, which promises to “free people with dry, sensitive skin from their problems and improve quality of life (QOL).” A succession of brand managers has unswervingly carried out business according to that purpose, and such focus has led to the brand's strength today. In fact, there is a saying that has been handed down among *Curél* brand managers: “Make this not a 10-billion-yen brand, but a brand that will be loved for 10 decades.” This was what one person said on the eve of reaching that sales milestone. I feel that the expression represents purpose-driven branding perfectly.

Nuriya: A clear purpose definitely becomes a motivation for work, as I constantly ask myself “What am I working for? What meaning does my work have?” For example, as the COVID-19 pandemic spread last year, hand sanitizers were out of stock in the stores in Japan. I came to know some families that were taking care of children at home who had serious diseases. These families were in terrible needs, so we gave them some hand sanitizers we could find in our warehouse

Roundtable Talk by Business Division Heads
Implementing ESG-driven *Yoki-Monozukuri*
 in Our New Business Division Structure

I felt keenly how the work we are involved in actually saves lives and protects people, which create a strong sense of responsibility that motivates me even more.

Kotaro Nuriya

Executive Officer
 Responsible for Health
 and Beauty Care
 Business



inventory. Later we received letters of thanks from the families, which touched me deeply. I have worked at Kao for many years, but this incident drove home for me how the work we are involved in goes beyond being merely being useful to people and making them happy to use our products, we are actually saving future lives. The business I am in charge of is quite clear about its role in helping society, so I felt very grateful for the

letters, and at the same time felt a strong responsibility, which motivates me even more.

As startups in the global marketplace grow, perhaps the most important thing for Japanese manufacturing to survive, as Mr. Murakami said, is to have purpose and focus, and thereby gain the affinity of and win the loyalty of consumers. I want to apply Kao's unique ESG-driven *Yoki-Monozukuri* and generate new value for the world.

Katayose: In FY2020 we came out with an asphalt modifier made from discarded PET materials. This is the essence of ESG-driven manufacturing unique to Kao. The modified asphalt has high durability and is safe and reliable for the customer while reducing costs to companies that used to dispose of PET as waste. Its cost to produce is much lower for Kao than the conventional products. I think it is important, therefore, to create a business model that makes all stakeholders happy, including customers and society, while generating profit sustainably for Kao.

Generating New Value through Connections Both within and Outside the Company

—**Murata:** One of the focuses in K25 is for the new business structure to break down organizational silos in

Thank-you letters from families that we gave *Bioré u Hand Sanitizers* to



With no end to the pandemic in sight, it was impossible to buy hand sanitizer and we couldn't help but worry as what we had left decreased day by day. So this one bottle is physically a great help and was such a relief emotionally as well.



We also told our daughter that someone far away was looking out for us. We intend to overcome the COVID-19 pandemic, and also raise our daughter to one day overcome her handicap and give back this kindness that we have received.





Measuring the strength of the asphalt modifier in the lab, and a paving project using the product. Adding just 1% asphalt modifier improves the durability of the asphalt pavement approximately five-fold.

other words, break down barriers among divisions, and create connections within and outside the company that will lead to products and services that generate new value.

Shimotoyodome: For me, the important thing in building horizontal connections, whether inside or outside the company, is to first decide clearly what we are trying to achieve. I believe that collaboration begins with polishing our vision to a level that makes it easy to communicate to people, and firmly declaring our intention.

Katayose: The same can be said for connections outside the company in the Chemical Business. Kao excels in strong materials and reliable evaluation techniques, so let's say, for example, that we have a material that doesn't irritate the skin and can control the texture of foam. On the other hand, there are different companies that have excellent surfactants but have issues with their foaming. A collaborative business effort could help create better products and services for customers and take both customers and Kao into uncharted territory.

—**Murata:** Under our ESG Strategy, I believe Kao will break down barriers both within and outside the company to pursue initiatives more creatively. I would like to see us more energetically express “this is how

we want to be” and work to generate new value. Thank you for your participation today.

I want us to express what we want to be both internally and externally and generate new value.

Mami Murata
Executive Officer
Responsible for
Strategic Public
Relations
(Facilitator)



Messages from Outside Directors and an Outside Audit & Supervisory Board Member



Sonosuke Kadonaga

Outside Director
Chairman of the Board of Directors

Overview of the Process to Select Kao's New President and Chief Executive Officer

In January 2021, Dr. Yoshihiro Hasebe was appointed Kao's new President and Chief Executive Officer. As Chairman of the Board of Directors and of the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members, I was involved for approximately a year in the process to select the new President and Chief Executive Officer. The steps in the selection process were conducted appropriately, starting with discussions of what qualities the person needed to have, and then continuing with the selection of candidates, learning about the qualities and aptitudes of each candidate, and then using this as the basis for evaluating the candidates. The first step in the process was for the examination committee to discuss what kinds of qualities Kao's next President and Chief Executive Officer needed to have. Out of this discussion, we determined that the following five qualities would be our main focus: (1) Being able to identify what is essential and press on with reforms without being tied to how things were in the past, (2) Having ideas, and being able to communicate and implement them in a way that resonates with employees, (3) Being able to create new businesses with an eye to the future, (4) Being

able to maximize opportunities while minimizing risk, (5) Being able to embody the Kao Way, our corporate philosophy. Next, an extensive pool of potential candidates was narrowed down and committee members gained a more in-depth understanding of the candidates, including through opportunities for direct interactions with them. We held repeated discussions about the candidates based on the above, and as a result of comparing each candidate with the qualities we were looking for in Kao's next President and Chief Executive Officer, the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members reported to the Board of Directors that Dr. Yoshihiro Hasebe was the most qualified candidate. The selection process and the results of our deliberation were shared with the Board of Directors, which then held its own discussions, followed by unanimous approval for the appointment of Dr. Yoshihiro Hasebe as Kao's next President and Chief Executive Officer.

While Dr. Yoshihiro Hasebe has assumed his new position in the midst of a very challenging business environment stemming from the COVID-19 pandemic, I am confident that he will continue to act boldly and proactively to implement reforms, and will adopt an aggressive management posture aiming to realize Kao's vision.



Nobuhide Hayashi

Outside Director

Aiming to Contribute to the Realization of K25 and the Enhancement of Corporate Value through Open, Constructive Dialogue

I believe that the ultimate purpose of the Board of Directors is to enhance corporate value over the mid- to long-term, and to effectively realize the putting in place of a governance framework appropriate to the company's actual circumstances. FY2020 was the year in which Kao formulated its new mid-term management plan, the Kao Group Mid-term Plan 2025 (K25). This process began with discussion regarding the overall vision for K25. The Board of Directors engaged in repeated, in-depth discussion, and in addition, intensive, whole-day discussions were held involving all Outside Directors. In this way, the formulation of K25 was undertaken after extensive consensus-building between management and Outside Directors. I believe that undertaking the process in this way made it possible to achieve more in-depth discussion of Kao's vision, business model and human capital development strategy. Implementation of K25 began in January 2021. Going forward, we will need to carry out a thorough PDCA (plan, do, check, act) cycle on an annual basis in accordance with the K25 roadmap, while ensuring that K25 is strategically disseminated both within and outside the company. I also believe that we will need to specify the types

of human capital that will be required in order to implement K25 effectively, and engage in discussion regarding talent cultivation plans and the effective utilization of external talent, including recruitment of non-Japanese employees. It is also very important to check whether the outcomes of discussion by the Board of Directors are able to take root firmly within the organization as a whole, and to ensure that, when problems emerge, possible solutions to these problems are discussed by the board. I feel that, overall, Kao's Board of Directors is very well structured, and I hope that the board will be able to continue making a positive contribution toward the achievement of K25 and the enhancement of corporate value through open, constructive discussion that does not discriminate between Inside and Outside Directors.

Contributing toward Enhancing Governance throughout the Kao Group as a Whole

Since taking up the position of Outside Audit & Supervisory Board Member in March 2018, I have attended every meeting of the Board of Directors and of the Audit & Supervisory Board. Kao's Board of Directors operates with a high level of efficiency, with open, wide-ranging discussion based on the spirit of the Kao Way that does not distinguish between Outside and Inside Directors, or on the basis of the position held. With regard to internal controls, Kao is currently engaged in the building of a framework to further enhance the effectiveness of its internal controls and adjust how they operate. I hope to engage in further discussions on this matter at the meetings of the Board of Directors, which is charged with the role of management oversight. Regarding risk management and crisis management, it is important not only to make the maximum possible effort to prevent incidents from occurring, but also to ensure that, if an incident does occur, the negative impact is minimized. In my role as an Outside Audit & Supervisory Board Member, I am focused on realizing the timely transmission of information and on ensuring appropriate initial response, etc.

I also serve as a Member of the Audit & Supervisory Board of Kao Group Customer Marketing Co., Ltd., a subsidiary of Kao Corporation, and I aim to make a contribution from the perspective of enhancing group governance in the Kao Group as a whole. The Kao Group holds Affiliated Company Audit & Supervisory Board Member Coordination Meetings which are attended by auditors from Kao affiliates within Japan, with the Audit & Supervisory Board Members of Kao Corporation playing a central role. I do my utmost to take advantage of opportunities such as this to spread awareness of the proper approach for Audit & Supervisory Board Members to take, and to invigorate their activities. The effectiveness of the Audit & Supervisory Board is evaluated on an annual basis. As a result, a number of new initiatives were implemented in FY2020, including the establishment of a Compensation Advisory Committee for Audit & Supervisory Board Members Initiatives such as this will provide a foundation for raising the overall level of corporate governance at Kao and for supporting further enhancement of corporate value.



Nobuhiro Oka

Outside Audit & Supervisory Board Member

Corporate Governance



Basic Views

Our targets for 2030 are to make Kao a company with a global presence, valuable to society. In order to become an essential company in a sustainable world, we are significantly shifting its direction to ESG management. While aiming to become a high-profit global company, we are also working toward raising the level of social contribution by capturing changes in business environments surrounding us and changes in stakeholders' values. In order to gain trust from society, which is indispensable for these corporate activities and business activities, we are constantly strengthening its corporate governance in both systems and operations. We view accomplishing its corporate governance as one of its most important management issues and

the company's basic stance on measures related to corporate governance is to set up and operate a management structure and an internal control system, implement necessary measures in a timely manner 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. The company has been actively engaging in activities to listen to stakeholders' voices and based on input from stakeholders and social trends, it conducts reviews of its corporate governance and implements the necessary measures and improvements, as needed, in an appropriate manner.

Features of Kao's Corporate Governance

● Integrity	We practice corporate governance that places our corporate philosophy, the Kao Way, at the core of our business management, and with a consistent focus on walking the right path (Integrity), which is one of values of the Kao Way. Employees work together based on mutual respect and fairness, bring an attitude of sincerity and diligence, and conduct themselves lawfully and ethically, and by so doing we are able to maintain the support and trust of all stakeholders and engage in sound and honest business activities.
● Innovation	We have pursued creation of the most optimal structure to respond to changes in the business environment as well as social demands. In FY2020, we revised our structure and its operations to further raise the level of our governance, including adding Audit & Supervisory Board Members to the positions subject to review by the Committee for Examination of Nominees and establishing the new Compensation Advisory Committee for Audit & Supervisory Board Members, and are striving to improve our corporate value.
● ESG Vision	We have established our ESG Vision in order to become a company that is essential to a sustainable world, and we position the creation of effective corporate governance as a prerequisite and a driver to vigorously advance the realization of this vision.
● Use of outside executives	We have put in place a system of governance able to maintain a high degree of objectivity, including making 7 of the 13 members of the Board of Directors/Audit & Supervisory Board Members independent and outside members and having an Outside Director serve as Chairman of the Board of Directors, to ensure that the Board of Directors is able to appropriately perform management oversight. Outside Directors and Outside Audit & Supervisory Board Members are designated with priority placed on their independence as well as their expertise and high-level insight. They oversee and audit planning and execution of business strategy and the like from their diverse viewpoints, facilitating effective and judicious decision-making.
● Strengthening internal control	The Internal Control Committee leads discussions on compliance, risk and crisis management, and related topics across the Kao Group to improve the effectiveness and efficiency of our business processes, ensure the credibility of our financial reporting, comply with laws and regulations in our business activities, and preserve our assets, and we are strengthening internal control throughout the Kao Group.

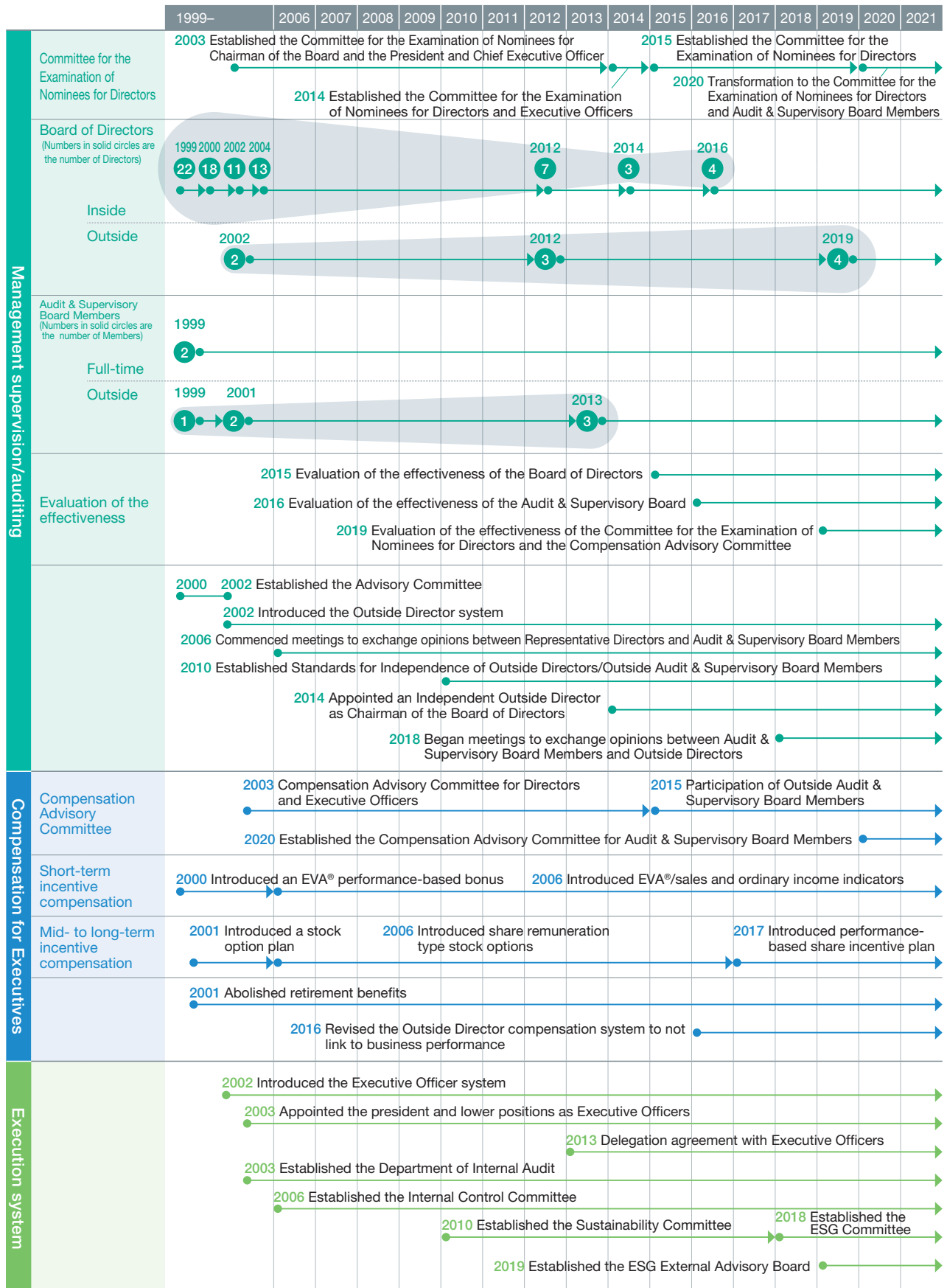


Report Concerning Corporate Governance

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance_001.pdf

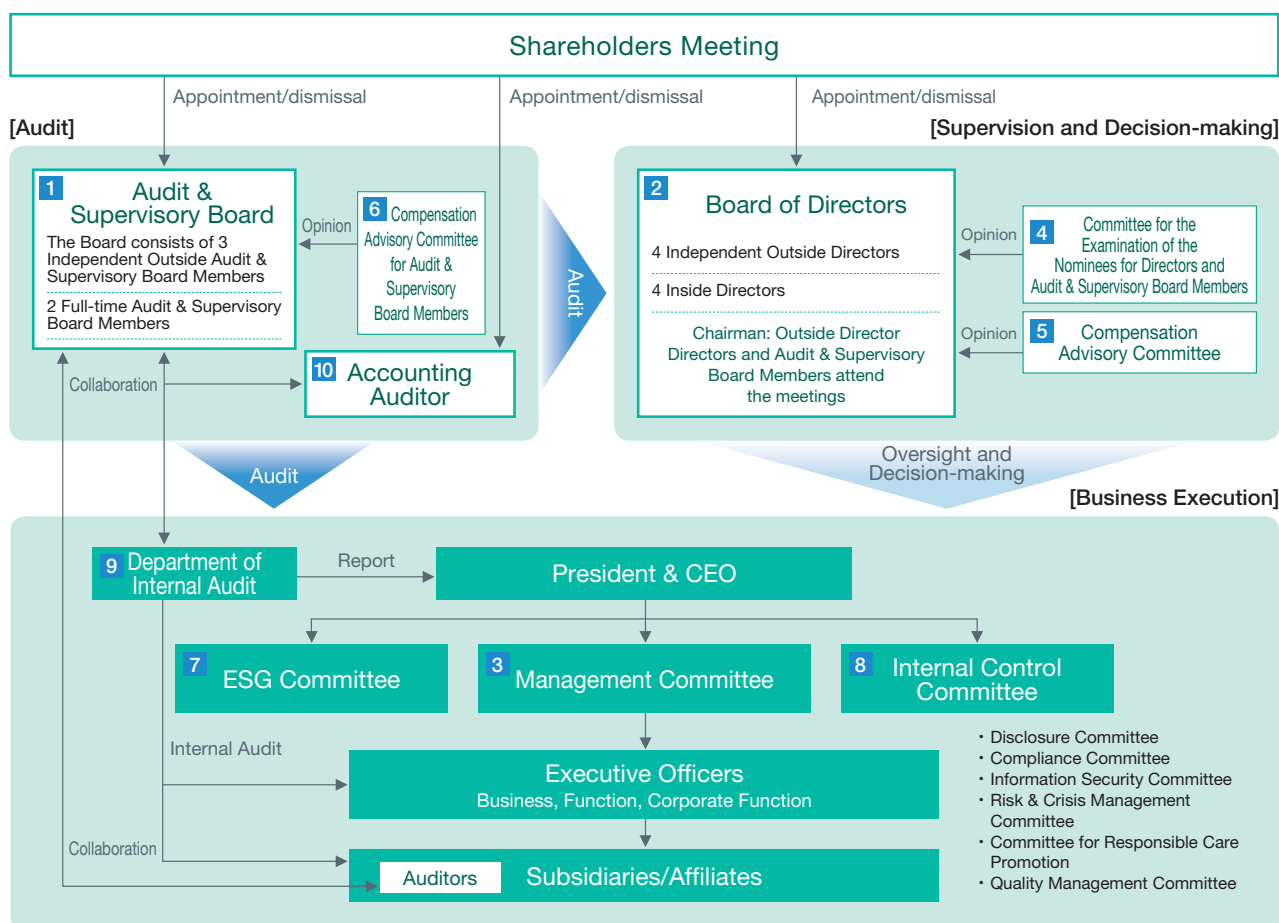
Please see our corporate website for more information about our corporate governance.

The Path toward Strengthened Governance



Kao's Approach to Corporate Governance

Corporate Governance Structure (As of June 2021)

**1 Audit & Supervisory Board**

Composed of Full-time Audit & Supervisory Board Members who are familiar with the company's internal matters, and Outside Audit & Supervisory Board Members who possess a high level of specialist expertise and know-how in the fields of finance, accounting or legal affairs, the Audit & Supervisory Board engages in in-depth discussion from an independent, objective viewpoint. The Audit & Supervisory Board Members realize effective auditing by attending important meetings, such as meetings of the Board of Directors and of the Management Committee, as well as through coordination with the Accounting Auditor, the internal auditors of each division and the auditors of affiliated companies, and through the implementation of audits at individual divisions within the company and of surveys at affiliated companies.

2 Board of Directors

The Board of Directors deliberates from various perspectives, including the evaluation of risks, on the overall direction of management including management strategy, and monitors from multiple viewpoints whether the management strategy is being properly implemented. It also puts in place an environment conducive to aggressive management that also clearly identifies risks, by establishing an internal control system and risk management system.

3 Management Committee

With a membership that consists mainly of personnel at Managing Executive Officer level or higher, the Management Committee makes decisions relating to the execution of the mid- to long-term direction and strategy that has been deliberated on and decided on by the Board of Directors. Delegating wide-ranging authority to the Management Committee helps to speed up decision-making and execution.

4 Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members

Comprising all Outside Directors and Outside Audit & Supervisory Board Members, this committee examines and deliberates on the appropriateness and other qualities of Director nominees, including nominees for the positions of Chair, President and Chief Executive Officer and Representative Director, as well as Audit & Supervisory Board Member nominees, and submits its opinions to the Board of Directors. The committee also discusses issues relating to the scale, composition and diversity of the Board of Directors and the Audit & Supervisory Board, as well as the qualities and capabilities required by their members, and reports on its findings to the Board of Directors.

5 Compensation Advisory Committee

The Compensation Advisory Committee is composed of all Representative Directors, the Chair of the Board of Directors, all Outside Directors and all Outside Audit & Supervisory Board Members. The committee examines and deliberates on compensation systems and compensation levels for Directors and Executive Officers, and submits its opinions to the Board of Directors.

6 Compensation Advisory Committee for Audit & Supervisory Board Members

Comprising all Outside Audit & Supervisory Board Members, the President and Chief Executive Officer, and one Outside Director, this committee examines, from an external perspective, the appropriateness of the amount of compensation awarded to Audit & Supervisory Board Members by the decision of the Shareholders Meeting, and the transparency of the process by which this decision was made, and submits its opinions to the Board of Directors.

7 ESG Committee

To gain the support and trust of all stakeholders, the ESG Committee 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 as a company with a global presence, and of society. The concrete embodiment of ESG Strategy is promoted by the ESG Promotion Meeting, and developed through activities carried out by individual divisions. The overall direction of ESG activity is confirmed and adjusted as necessary by the committee based on the current state of company-wide ESG activity promotion and the recommendations received from the ESG External Advisory Board.

8 Internal Control Committee

The Internal Control Committee oversees and promotes internal control activities throughout Kao, with the aim of ensuring the accuracy of financial reporting and enhancing the quality of internal control establishment and operation through cross-organizational integration of functions pertaining to internal control.

9 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.

10 Accounting Auditor

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

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

◎ Indicates Chairman of the Board or specified committee. ○ Indicates attending member.

	Name	Period of appointment (upon conclusion of the March 2021 Shareholders Meeting)	Board of Directors	Audit & Supervisory Board	Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members	Compensation Advisory Committee	Compensation Advisory Committee for Audit & Supervisory Board Members	Attendance (FY2020)	
								Board of Directors	Audit & Supervisory Board
Directors	Michitaka Sawada	12 years 9 months	○			○		14/14	—
	Yoshihiro Hasebe	5 years	○			○	○	14/14	—
	Toshiaki Takeuchi	7 years	○			○		14/14	—
	Tomoharu Matsuda	2 years	○			○		14/14	—
	Sonosuke Kadonaga Outside/Independent	8 years 9 months	◎		◎	◎	○	14/14	—
	Osamu Shinobe Outside/Independent	3 years	○		○	○		14/14	—
	Chiaki Mukai Outside/Independent	2 years	○		○	○		14/14	—
	Nobuhide Hayashi Outside/Independent	2 years	○		○	○		14/14	—
Audit & Supervisory Board Members	Hideko Aoki	2 years	○	◎				14/14	8/8
	Sadanao Kawashima	— *1	○	○				—	—
	Hideki Amano Outside/Independent	4 years	○	○	○	○	◎	14/14	8/8
	Nobuhiro Oka Outside/Independent	3 years	○	○	○	○	○	14/14	8/8
	Takahiro Nakazawa Outside/Independent	1 year	○	○	○	○	○	12/12*2	6/6*2

*1 Appointed to and assumed the position at the March 2021 Shareholders Meeting.

*2 The Board of Directors met 12 times, and the Audit & Supervisory Board met 6 times, since Mr. Nakazawa assumed the position.

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

In nominating candidates for Outside Directors, Kao emphasizes having wide-ranging experience, knowledge and insight, as well as taking into account the issue of independence. In nominating candidates for Outside Audit & Supervisory Board Members, emphasis is placed on whether candidates possess the high level of expertise and insight in accounting and finance, and in law, necessary for auditing, and whether they have extensive experience as well as possessing high ethical standards as a professional. Importance is also attached to meeting the legal requirements to be classed as an Outside member, and to be considered independent.

	Name	Reasons for appointment
Outside Directors	Sonosuke Kadonaga	He has a high level of insight related to international corporate management gleaned from his considerable experience at a foreign-affiliated consulting company and has served as the Chairman of the Board of Directors since March 2014, where he has contributed to highly engaging discussions that transcend the boundaries of Inside and Outside Directors.
	Osamu Shinobe	He has 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 he offers opinions and valuable suggestions on matters material to our group management.
	Chiaki Mukai	As an astronaut and a doctor, she has a high level of expertise in the scientific fields, and at Board of Directors meetings, 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.
	Nobuhide Hayashi	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.
Outside Audit & Supervisory Board Members	Hideki Amano	He has a high level of specialist expertise as a certified public accountant, and has extensive global experience at a leading auditing firm. Making full use of the experience and insights he has acquired as a member of management he has been serving as an Audit & Supervisory Board Member at Kao Corporation since March 2017, and has conducted auditing for the Kao Group effectively based on a professional perspective.
	Nobuhiro Oka	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 & Supervisory Board Member of principal subsidiary since 2014.
	Takahiro Nakazawa	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).

Kao's Approach to Corporate Governance

Initiatives to Enhance the Effectiveness of the Board of Directors

Kao is implementing the following initiatives to ensure that the Board of Directors fulfills its roles and responsibilities in relation to oversight of operational execution and decision-making. The effectiveness of the Board of Directors is

being enhanced by promoting the timely and appropriate provision of information to Outside Directors and by fostering open, frank and constructive discussion and exchange of views between Outside and Inside Directors.

Initiatives to Ensure Full Utilization of the Functions of Outside Directors

Specific Initiatives	Frequency of implementation	Content
● Provision of information prior to meetings of the Board of Directors	Monthly	To facilitate productive discussions at meetings of the Board of Directors, relevant materials are distributed beforehand to promote understanding of matters such as the background, purpose and content of agenda items.
● Appointment of an Outside Director as Chairman of the Board of Directors	—	By appointing an Outside Director to serve as Chairman of the Board of Directors, an environment has been created that fosters the eliciting of views based on a perspective that is neutral and independent from the executive function, thereby facilitating more appropriate discussion.
● Arranging for the Chairman of the Board of Directors to sit in on meetings of the Management Committee	Three to four times a month	Having the Chairman of the Board sit in on meetings of the Management Committee, which constitutes the highest executive decision-making body, creates opportunities for the chairman to directly access information relating to important executive issues and the state of discussion regarding those issues. Building on this, when meetings of the Board of Directors are held, the chairman can share the information he/she possesses regarding the background to the issues with the other Outside Directors, which makes it easier to get to the heart of the discussions more quickly.
● Arranging for Outside Directors to attend R&D presentations	Annually	Having Outside Directors sit in on R&D presentations creates opportunities for them to directly access internal information relating to R&D strategy and the state of progress in R&D, etc. Giving Outside Directors a more in-depth understanding of internal activities in this way leads to invigorated discussion in meetings of the Board of Directors.
● Holding meetings at which Outside Directors and Audit & Supervisory Board Members can exchange views	Three times a year	In creating regular opportunities for meetings, the aim is to facilitate the active exchange of views regarding issues identified during auditing conducted by Audit & Supervisory Board Members, and the making of proposals to address these issues where necessary.
● Worksite visits	Annually	Having Outside Directors visit Kao's markets, offices, factories and retailers creates opportunities for them to directly access information relating to the frontline of our operations. In past years, Outside Directors have also visited worksites outside Japan. However, in FY2020, due to the spread of the COVID-19 pandemic, visits were only made to worksites within Japan (specifically, the Wakayama Plant).



Board of Directors

The Board of Directors is structured appropriately, with a good balance of Directors from inside and outside the company who possess diverse experience and expertise. The board undertakes decision-making in regard to important matters such as management strategy, etc., as well as monitoring strategy execution. In FY2020, the board held monthly discussions to consider status reports relating to the COVID-19 pandemic, its impact on business activities

and the initiatives being adopted in response. In addition, the board engaged in an open, wide-ranging exchange of views to formulate the new Kao Group Mid-term Plan 2025 (K25). In addition to the items noted on the next page, each month the board receives business execution reports from Directors currently serving as Executive Officers, as well as receiving reports on matters discussed during meetings of the Management Committee from the Executive Officer in charge.

Major Topics Discussed by the Board of Directors in FY2020

First Quarter	<ul style="list-style-type: none"> ● Evaluation of the effectiveness of the Board of Directors ● Department of Internal Audit semi-annual reports ● Audit & Supervisory Board Members' audit report summaries 	Second Quarter	<ul style="list-style-type: none"> ● Mid-term plans (K20 and K25) ● Cosmetics Business strategy ● Current status of Research & Development and topics ● Compliance Committee annual reports
Third Quarter	<ul style="list-style-type: none"> ● Mid-term plan (K25) ● Department of Internal Audit semi-annual reports ● Deliberations relating to the appointment of a new President & CEO 	Fourth Quarter	<ul style="list-style-type: none"> ● Mid-term plan (K25) ● Research & Development progress report ● Internal Control Committee activities report ● Cross-shareholdings status report ● New employee empowerment system

Evaluation of the effectiveness of the Board of Directors

On an annual basis, an evaluation is conducted at a meeting of the Board of Directors, in order to make improvements aimed at enhancing the effectiveness of the Board of Directors. Kao believes that it is effective for all of those who participate in meetings of the Board of Directors to perform evaluation by expressing their own opinions and engaging in free and open discussions, and so evaluation of Board effectiveness is performed using self-assessment. For the FY2020 evaluation, once again, a survey was conducted, and feedback on the survey results were provided before engaging in discussion and exchange of opinions.

Efforts to address issues pointed out in the FY2019's evaluation

- Discussion of the broad direction of corporate strategy: While adequate discussion did take place, there was a need for further discussion of the company's global strategy, M&A strategy and human capital strategy.
- Human capital development strategy: While a certain amount of discussion did take place, the board failed to engage in adequate discussion that was focused on specific issues. There was a need for more in-depth discussion of how to identify the types of human capital required in order to realize K25, of ways to clarify the state of utilization of the OKR new employee empowerment system, and of next-generation human talent cultivation, etc.
- Internal controls to realize compliance: While improvement has been seen in terms of initiatives to ensure rapid reporting of bad news, realize in-depth exploration of the causes of problems, and expand the scope of investigation, etc., there is a need for further improvement in terms of systems and operation. There is also a need to clarify the relative importance of individual issues, and to engage in discussion regarding whether, currently, the functions for preventing major incidents in advance are operating at the desired level.

Current state of discussion regarding the Kao Group Mid-term Plans (K20 and K25)

● Discussion and oversight regarding the achievement of K20

The main focus of discussion in relation to the realization of the goals of K20 has been on oversight regarding the response to COVID-19 pandemic, with clear distinctions being made as to whether a particular issue derives from the COVID-19 pandemic or not.

● Discussion regarding the formulation of K25

The process of formulating K25 has involved a lively exchange of opinions, and adequate discussion, over an extended period of time, which deserves a positive evaluation. However, in the future there is still a need for more discussion regarding the specifics of the K25 plan.

● The vision for future discussion and oversight of the implementation of K25

There is a need for the putting in place of a framework to facilitate monitoring and for ongoing discussion. Discussion is also needed regarding decision-making in relation to the large-scale investment required for the implementation of K25, and the effectiveness of such investment, as well as regarding large-scale strategic initiatives and strategies to resolve issues that hinder implementation of K25. There is also a need to monitor the status of implementation of related activities by company employees.

● Ensuring that the composition of the Board of Directors is oriented toward realization of K25

While the Board of Directors is already reasonably well-balanced, with a composition that falls within an appropriate level, Kao needs to strive for further improvement based on ongoing discussion of diversity. In regard to executive officers as well, Kao needs to consider making more efforts to recruit from outside the company, and to do more to recruit younger people, women and people with a track record of successful performance in overseas businesses.

Issues to be addressed by the Board of Directors

- To realize the achievement of K25, there is a need for timely sharing of concrete information regarding the current situation, as well as for ongoing discussion based on diverse viewpoints.
- There is a need for ongoing discussion of the human capital strategy. What is required is an intensification of discussion regarding the strategic direction that Kao needs to be heading in, as well as discussion of how to retain and cultivate the types of human capital that are needed in order to realize K25.
- With regard to internal controls, there is a need for ongoing monitoring of system establishment and of whether systems are operating properly, so that the control system can function more effectively throughout the group.

In addition to the above, evaluation was also performed of the overall state of operation of the Board of Directors, and of its deliberations. Furthermore, operation of the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members, and of the Compensation Advisory Committee, including deliberation of matters relating to the appointment of a new President and Chief Executive Officer and the adjustment of the compensation system, was evaluated and deemed to be appropriate.

Kao's Approach to Corporate Governance

Initiatives Relating to Auditing

Audit & Supervisory Board Members attend the Board of Directors meetings, audit the state of compliance with relevant laws and with Kao's Articles of Incorporation, the management decision-making process and the status of development and operation of the internal control environment, etc., and provide opinions as necessary.

In FY2020, based on the initiatives adopted by Kao to prevent the spread of COVID-19, audit quality was maintained by incorporating remote auditing activities.

Full-time Audit & Supervisory Board Members attend important meetings such as those of the Management

Committee, Internal Control Committee and other relevant committees. In addition, they conduct on-site visit to factories and research laboratories, interview business units and functional divisions, and conduct surveys of affiliated companies both within and outside Japan. Outside Audit & Supervisory Board Members also participate in such activities where appropriate. Based on the findings and opinions obtained through these audit activities, the Audit & Supervisory Board holds meetings to exchange opinions with Representative Directors of the company, as well as holding meetings with Outside Directors, and makes suggestions as necessary.

Key Audit Items in FY2020

The Audit & Supervisory Board has established the following key audit items which are of fundamental importance, and implements auditing with respect to these items.

- | | |
|--|---|
| <ul style="list-style-type: none"> ● Audits relating to Directors' execution of their duties ● Audits of the status of development and operation of the internal controls system | <ul style="list-style-type: none"> ● Audits of crisis management, risk management and compliance risk ● Audits relating to financial reporting and disclosure ● Audits of the data retention management system |
|--|---|

Evaluation of the effectiveness of the Audit & Supervisory Board

The Audit & Supervisory Board conducts an annual evaluation of the effectiveness of the activities of the Audit & Supervisory Board members and the Audit & Supervisory Board. At an Audit & Supervisory Board Meeting held in February 2021, each Audit & Supervisory Board member expressed their opinions on the activities in FY2020, referring to the checklist of focus points for "Self-Evaluation of the Effectiveness of Audit & Supervisory Board Members and Audit & Supervisory Board," and based on these opinions, all members discussed and evaluated the activities. The results were reported to the Board of Directors and will be incorporated into the audit plan for FY2021 to further enhance activities. The main results of the evaluation are as follows.

Current status

- Audit & Supervisory Board Members attend the meetings of the Board of Directors, audit the management decision-making process and the status of development and operation of the internal control environment from the perspective of legality and appropriateness, and provide opinions as necessary.
- Full-time Audit & Supervisory Board Members attend important meetings such as meetings of the Management Committee, Internal Control Committee and subordinate committees to confirm whether the execution status and the development and operation of internal control are properly implemented. They also perform auditing of factories and research laboratories, business divisions, function divisions and subsidiaries located both within and outside Japan, with Outside Audit & Supervisory Board Members participating too as appropriate. In FY2020, based on measures to prevent the spread of the infection of COVID-19, remote audits were used in combination to maintain audit quality.
- Audit & Supervisory Board Members hold meetings to exchange opinions with the Representative Directors of the company and its important subsidiaries, as well as with the Outside Directors, based on the findings and opinions obtained through these auditing activities, and make recommendations as necessary.

- Audit & Supervisory Board Members exchange opinions frankly with each other based on their experience and expertise, while incorporating objective viewpoints, and generally function effectively.
- The Audit & Supervisory Board has the opportunity to report regularly on the activities of the Audit & Supervisory Board at the Board of Directors meeting.
- At meetings held to exchange opinions with Auditors of domestic group companies, opportunities are provided for Outside Audit & Supervisory Board Members to give addresses, and an exchange of views is held regarding Auditors' activities and internal controls at individual group companies.

Activities

- Attendance at important meetings: 69 times
- Meetings to exchange opinions with Directors: 6 times
- Auditing of factories and research laboratories, business divisions, function divisions and subsidiaries located both within and outside Japan: 105 times (First Defense Line: 90 times; Second Defense Line: 15 times)
- Three-way audit related activities: 44 times

Issues

At the start of the Kao Group Mid-term Plan 2025 (K25), the following proposals and discussions will be made in order to respond appropriately and flexibly to changes in the business environment and business expansion.

- Make recommendations to improve the effectiveness and efficiency of both the development and operation of internal controls on a global basis
- Strengthen the system to enable the auditors of subsidiaries to function more effectively
- Continuously review the way in which audits are implemented

Internal Audit Status

The Department of Internal Audit reports directly to the President and Chief Executive Officer. It conducts internal audits on management activities of Kao and Kao Group companies in general from the perspective of complying with laws and regulations, the appropriateness of financial reporting and administrative effectiveness and efficiency. Besides providing reasonable assurance as to the effectiveness of the company's internal controls, the department also aims to further enhance the internal controls system by proposing improvements. The results of internal audit activities are reported to the Management Committee and the Board of Directors at regular intervals.

Regarding management of subsidiaries, the Group Company Policy Manual stipulates which items subsidiaries are required to obtain approval for from Kao

in advance, and which items they are required to report to Kao. In accordance with the policy manual, the findings of internal audits conducted by the Department of Internal Audit, as well as initiatives implemented in response and the outcomes of such initiatives, are shared with the board of subsidiaries.

The Department of Internal Audit exchanges information and opinions regarding the current state of internal audit activities with Audit & Supervisory Board Members on a regular basis and as needed. In addition, with regard to the development or evaluation of internal controls relating to financial reporting and the current state of related internal audit activities, the Department of Internal Audit shares information as appropriate with the Accounting Auditor, and strives for effective mutual coordination with the Accounting Auditor.

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, outstanding talent so as to establish and enhance competitive advantage, (2) promoting prioritized actions for realizing continuous increases 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.

Regarding Kao's share incentive plan, in order to promote the vision of "contributing to an 'enriched sustainable world' and growing the businesses of the company through proactive engagement in ESG activities

and investment" which is one of the goals of K25 that was initiated in FY2021, we have made adjustments to the long-term incentive compensation indicators starting from FY2021.

As regards short-term incentive compensation, while the exact percentage varies between the President and Chief Executive Officer, Inside Directors and other Executive Officers, in all cases EVA and consolidated net sales and income are used as the evaluation indicators. EVA, which is a management indicator to which we attach great importance, has been adopted as an evaluation indicator in order to provide motivation for enhancing corporate value through the implementation of long-term strategies that contribute toward the resolution of ESG issues. With regard to the adoption of consolidated net sales and income as evaluation indicators, this represents a goal that is shared with ordinary employees. It provides motivation for realizing profitable growth through day-to-day business activities, and can help to foster a sense of unity with employees.

Kao's Approach to Corporate Governance

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

	Base salary	Short-term incentive compensation		Long-term incentive compensation		
		Bonus		Share incentive		
		EVA®-linked part	Consolidated net sales/profit-linked part			
Method of provision	Amount determined in accordance with role and rank, and provided as fixed monthly compensation	Amount of bonus determined in accordance with degree of achievement of single fiscal-year targets and provided		Kao shares, etc., are delivered within a five-year target period covered by the current mid-term plan • Fixed part: Deliver a set number of shares, etc. each year • Variable part: Delivery of shares, etc. when executive officers resign from their post in accordance with the results achieved in initiatives and activities undertaken as part of the mid-term plan The compensation structure is set at 70% variable and 30% fixed.		
Clawback	No	No		Yes (in the case of a serious compliance violation, etc. by the individual in question, the compensation may not be paid, or may be required to be repaid)		
Performance evaluation period	–	One year		Five years (2021–2025)		
Evaluation indicator	–	EVA®	• Consolidated net sales • Income (Gross Profit Less Selling and General and Administrative Expenses)	Business growth	ESG activities	Top management activities
Evaluation criteria	–	Degree of target achievement	Degree of target achievement Degree of year-on-year improvement	Business growth rate of net sales, profit, etc.	Evaluation by external indicators, and extent of achievement of internal goals (such as the Kire Lifestyle Plan), etc.	Evaluation of management activities by Kao employees, etc.
Coefficient/Determination of payout rate	–	The payout ratio is determined within the range of 0–200% in accordance with the degree of achievement of each indicator.		The coefficient for the variable part is determined within the range of 0–200% in accordance with the degree of achievement of each indicator.		
Compensation structure	–	Bonus amount by position when the payout ratio is 100% • President and Chief Executive Officer: 50% of base salary • Executive Officers with titles: 40% of base salary (except for the President and Chief Executive Officer) • Other Executive Officers: 30% of base salary		The yearly share remuneration amount when the variable component coefficient is 100% • About 40% to 50% of the base salary of the position		
Eligible for provision	• Directors • Executive Officers • Audit & Supervisory Board Members	• Directors (Except for Outside Directors) • Executive Officers		• Directors (Except for Outside Directors) • Executive Officers		
Applicable period	–	One year		Five years (2021–2025)		

Compensation Structure for Directors

Fixed compensation (50%)		Variable compensation (50%)	
1. Base salary		2. Short-term incentive (25%)	3. Long-term incentive (25%)

* In the case of the Representative Director, President and Chief Executive Officer.

* In the case where the variable component coefficient and the payout rate are both 100%.

Compensation Paid to Directors in FY2020

Classification	Number of persons (Persons)	Aggregate amount of remuneration (Millions of yen)	Amount of remuneration by type (Millions of yen)		
			Base salary	Bonus	Performance-based share incentive
Directors (of Outside Directors)	8 (4)	240 (75)	268 (75)	83 (–)	– 111 (–)
Audit & Supervisory Board Members (of Outside Audit & Supervisory Board Members)	6 (4)	81 (30)	81 (30)	– (–)	– (–)
Total (of Outside Directors and Audit & Supervisory Board Members)	14 (8)	321 (105)	349 (105)	83 (–)	– 111 (–)

Note: 1. The above numbers of Directors/Audit & Supervisory Board Members include one Outside Audit & Supervisory Board Member who resigned at the conclusion of the 114th Annual General Meeting of Shareholders held on March 25, 2020.

2. Regarding performance-based share incentives, as the most recent fiscal year was the final year of implementation of the Kao Group Mid-term Plan K20, performance-based share incentives were confirmed after the conclusion of the final year of implementation of K20, with the inclusion of the performance-based part for the final year. The amount obtained by deducting an amount equivalent to the fixed part of the performance-based share incentives paid up until the most recent fiscal year from the cumulative total disclosed for the period up until the previous fiscal year exceeded the confirmed amount, with the amount of reversal for prior period provisions based on the level of achievement of K20 performance objectives being 216 million yen. As the amount of provisions booked for the most recent fiscal year was 105 million yen, the disparity was shown as a decrease in the above table.

Compensation Paid for Individual Directors in FY2020

Name (Director classification)	Aggregate amount of remuneration (Millions of yen)	Corporate classification	Amount of remuneration by type (Millions of yen)		
			Base salary	Bonus	Performance-based share incentive
Michitaka Sawada (Director)	82	Submitting company	82	39	– 39

Note: 1. Regarding performance-based share incentives, as the most recent fiscal year was the final year of implementation of the Kao Group Mid-term Plan K20, performance-based share incentives were confirmed after the conclusion of the final year of implementation of K20, with the inclusion of the performance-based part for the final year. The amount obtained by deducting an amount equivalent to the fixed part of the performance-based share incentives paid up until the most recent fiscal year from the cumulative total disclosed for the period up until the previous fiscal year exceeded the confirmed amount, with the amount of reversal for prior period provisions based on the level of achievement of K20 performance objectives being 74 million yen. As the amount of provisions booked for the most recent fiscal year was 35 million yen, the disparity was shown as a decrease in the above table. For this reason, the aggregate amount of remuneration obtained by adding performance-based share incentives to base salary and bonuses was 82 million yen, and the aggregate amount of remuneration with performance-based share incentives deducted was 121 million yen.
2. Only Director remuneration amounts totaling over 100 million yen are listed.





ESG Committee

The Kirei Lifestyle Plan (KLP), introduced in April 2019 as a new ESG Strategy for Kao, symbolizes the desire to meet the needs of people who want to live more sustainably by pursuing creativity and innovation. The ESG Committee discusses and decides on the overall direction of activities related to Kao's 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, examines the current state of ESG activities, and implements these ESG Strategies company-wide.

Main Items Deliberated on and Approved by the ESG Committee in FY2020

- Confirmation of the ESG Strategy considering the spread of COVID-19
- Deliberation and approval of the ESG Strategy linked to the new Mid-term Plan K25
- Deliberation and approval of the revised draft of the mid- to long-term targets for the KLP
- Examination of the proposals from the ESG External Advisory Board
- Review of the progress made on each KLP action
- Discussion on how ESG performance evaluation should work

ESG External Advisory Board Members

Members					
	Lisa MacCallum	Founder, Inspired Companies. Specialization: Business reforms		Jalal Ramelan	Chairman, ESG Indonesia. Specialization: Sustainable development field
	Rika Sueyoshi	CEO, Ethical Association. Specialization: Ethical consumption		Helmut Schmitz	Director of Communication & Public Affairs, Der Grüne Punkt - Duales System Holding GmbH & Co. KG Specialization: Ethical consumption

As the world has had to endure hardships from the COVID-19 pandemic, our contributions through business based on our corporate philosophy, including meeting countries' emergency demand for medical and hygiene goods, have been highly rated by Advisory Board

ESG External Advisory Board

The ESG External Advisory Board is made up of external experts who provide advice and suggestions to issues raised by the ESG Committee and offer outside viewpoints that are input into management. They provide information to the ESG Committee to enable the development and implementation of world-class plans, and give advice on the methods adopted by Kao to support the realization of ethical consumption by consumers.

In FY2020, they welcomed Jalal Ramelan (Chairman, ESG Indonesia), an expert on sustainable development, and Helmut Schmitz (Director of Communications & Public Affairs, Der Grüne Punkt - Duales System Holding GmbH & Co. KG), an expert on recycling systems for packaging as new additions to the advisory board, and discussed how to implement the KLP internally and the methods adopted by Kao to support the realization of ethical consumption by consumers.

Proposals and Actions from the FY2020 Advisory Board

- Proposals on expectations for and risks to Kao based on the social situation
- Review and evaluation of the progress made on the KLP
- Proposals on the ESG Strategy linked to the new Mid-term Plan K25

Members. As a suggestion for our future direction, they anticipate greater cooperation with stakeholders and implementation of the Kirei Lifestyle Plan (KLP) while our ESG activities are sustained at a high level.



Message to Kao from the members of the Advisory Board

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/klp-pr-2021-e-07.pdf#page=10

Risk and Crisis Management

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

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

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).

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

The Risk and Crisis Management Committee and the Management Committee have defined 14 main risks of special importance as risks that could negatively impact our sustainable and profitable growth, and the contributions we make to the sustainability of society through our business activities. The managing divisions have established response policies for these risks and are managing their progress. 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 selects risk themes and risk owners (persons responsible for response to themes: Executive Officers) based on internal and external risk analysis and informational interviews with management. The risk owners establish response teams to continue examining the risks, and the Risk and Crisis Management Committee meets four times a year to manage their progress.

VOICE

Message from a Risk and Crisis Management Manager

We have upgraded our risk management framework in the process of responding to COVID-19.



Yasuhisa Otani

Risk Management
& Responsible Care,
Corporate Strategy

In response to COVID-19 that had begun to spread in at the end of 2019, we set up a crisis management system in January 2020 and established the Emergency Countermeasure Headquarters, chaired by the President, in February. At meetings of the headquarters attended by senior management and country managers, we decided companywide policy on continuance of business activities and corporate citizenship activities with foremost priority placed on protecting our employees and their families, and made united Group efforts to implement the policy.

We have been developing guidelines and action plans for how to respond to pandemic risks since 2016, so we

were able to quickly establish and implement our initial response policy for COVID-19. However, infections spread at a speed and scale that surpassed our projections, with many countries and regions seeing repeated waves of infections. At one point, the headquarters was meeting every week, with senior management leading extensive discussions and implementing our response.

Due to these actions, we were able to prevent infections among Kao Group employees around the world as well as maintain our business activities while also meeting the needs of society, including continuous supply of hygiene-related products, preferential supply of alcohol-based disinfectant and other supplies to medical facilities and facilities for senior citizens, and provision of evidence-based information about sanitation.

We are still continuing these efforts now. We will maximize execution of our business processes while protecting our employees and their families, adapt to the new normal and further strengthen our risk management looking ahead to the achievement of Kao Group Mid-term Plan 2025 (K25).

Corporate Risks and Main Initiatives

Theme	Details of risks	Main initiatives
Pandemics	Risk including damage to employee health and temporary business suspensions occurring due to the global COVID-19 pandemic	<ul style="list-style-type: none"> Ensuring the safety of employees and their families <ul style="list-style-type: none"> Implemented work systems and styles based on infection conditions (promotion of remote work/teleworking, restrictions on business trips and training/events, etc.) Implemented care as applicable for infected employees and family members and those who were in close contact with infected persons, and measures to prevent cluster infections Launched the Infectious Disease Risk Assessment Project to reinforce infection prevention measures in the workplace and at home Continuity of business activities <ul style="list-style-type: none"> To maintain the supply chain, implemented higher-level infection control measures at production sites and rolled them out to subcontractors and other related parties, in addition to conducting relevant activities for raw material procurement Enhanced information systems for remote work and promoted digitalization of operations Reviewed Group systems for new work styles Formulated and implemented a business strategy for dealing with COVID-19 Contributions to society <ul style="list-style-type: none"> Provided a continuous supply of hygiene-related products for cleanliness and worry-free daily life Increased production of alcohol disinfectants to 20 times the previous level and supplied them on a priority basis to medical institutions, nursing facilities and other locations with urgent needs. Through our website, provide information on hygiene in daily life. For medical professionals, provide a wide range of information on measures for preventing the spread of infections based on expert knowledge including academic papers Contributed to the development of therapies and diagnostic tools for COVID-19, including the discovery of VHH antibodies that can be expected to inhibit infection.
Large-scale earthquakes and other natural disasters	Risk of harm to employees and assets including facilities and difficulties in supplying products as a result of large-scale earthquakes and other natural disasters such as large typhoons and floods associated with climate change	<ul style="list-style-type: none"> Conduct surveys of water-related risks at each business location, and strengthen physical and non-physical countermeasures Conduct disaster preparedness education including verifying flood hazard maps and evacuation measures Strengthen our response through emergency response drills and BCP drills to prepare for major earthquakes and other events
Environmental legislation outside of Japan	Risk of business or operations being suspended due to drastic changes to environmental legislation	<ul style="list-style-type: none"> Monitor using external specialist organizations and reinforce our response structure regarding impacts on local plants and key suppliers from drastic changes to environmental legislation in China
Serious quality issues	Risks of serious quality issues arising that would cause the loss of social trust	<ul style="list-style-type: none"> Strengthen company-wide response in the event of serious damage arising due to a quality problem Strengthen internal awareness-rising to prevent serious quality problems from arising
Cyberattacks and protection of personal information	Risk of leaks of personal information from intentional acts including cyberattacks or negligence	<ul style="list-style-type: none"> Create response flows in the event of an incident arising and hold drills Strengthen our global framework for information security and protection of personal information
Reputation	Risks that cause value and social trust in our brand to decline due to the spread of critical reviews and misinformation about Kao on social media	<ul style="list-style-type: none"> Strengthen the social media monitoring system Strengthen the emergency contact system used during contingencies
Use of digital media	Risks arising from the release of ads and other communications with inappropriate expressions, stealth marketing, etc.	<ul style="list-style-type: none"> Continuously strengthen internal education, and revise guidelines and the like Develop ad distribution tools to improve and sustain our brand value



Financial Report 2020

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/investor-relations/pdf/financial-reports-fy2020e-01.pdf

For more information about the content of the main risks faced, and the main initiatives being taken to address them, see the "Business Risks and Other Risks" Section of our Financial Report 2020.

Compliance

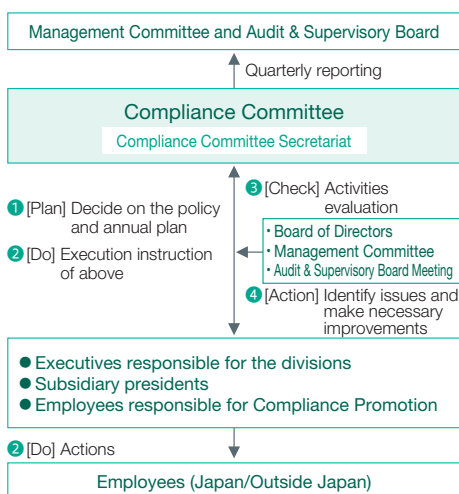
Basic Philosophy

Kao regards Integrity, the core value inherited from its founder, as the starting point of its compliance. To justify the support and trust of all of our stakeholders, we implement our compliance promotion activities through the PDCA cycle outlined below.

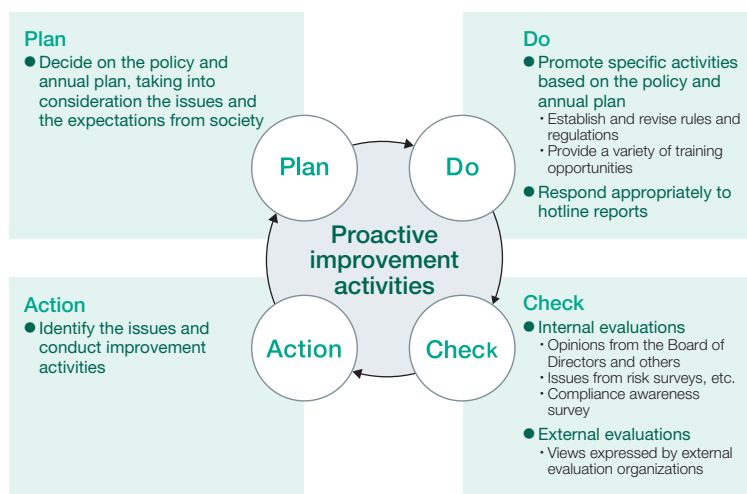
The Compliance Committee decides on policies and the annual plan. The Compliance Committee Secretariat converts these into concrete activities, which are then promoted by the group companies and divisions within and outside Japan. Incidents that arise are reported to the Compliance Committee,

Management Committee and the Audit & Supervisory Board, and based on their review, issues are identified and activities to improve them are promoted. In addition, after review, the Compliance Committee reflects issues identified from the results of the compliance awareness survey, as well as external surveys, in activities for promotion during the following year. Annual reports are also made to the Board of Directors, with improvement activities implemented based on the resulting discussion.

Compliance Structure



Compliance PDCA Cycle



Initiatives to Enhance Compliance

To instill the Kao Business Conduct Guidelines (BCG), which embody specific activities promoting the Integrity that is part of the Kao Way, we promote activities focused on reducing serious compliance risks. In addition, we strive to promote an open workplace atmosphere that allows discovered improprieties to be immediately reported to management and an appropriate response promptly be taken. Anti-bribery and anti-corruption are clearly defined in the BCG as well, and we have also established the Kao Anti-bribery (anti-corruption) Guidelines, which specify the monetary standards and prior reporting obligations for giving and receiving of entertainment and gifts. Moreover, we promote anti-bribery and anti-corruption management practices, such as evaluating bribery risks associated with distributor selection and contract renewal.



Kao Business Conduct Guidelines (BCG)

Initiatives to Enhance Compliance

Categories	Initiatives
Rules and Regulations	2002 Revision of Corporate Principles 2003 Business Conduct Guidelines (BCG) 2014 Anti-bribery (anti-corruption) Guidelines 2018 Rules for Improprieties Reporting 2020 Rules for Operating Compliance Hotlines/ Rules for Improprieties First Report
Organization	2000 Corporate Ethics Committee 2003 Compliance Committee
Compliance Hotline	2000 Compliance Hotline and Kao Consultation Room 2003 Lawyer's Compliance Hotline and External-access Compliance Hotline 2007 International Compliance Hotline (anonymous) 2019 Japan Compliance Hotline (anonymous)
Trainings and Announcements	2003 BCG Seminar 2005 Stratified trainings 2008 Commencement of training for group companies outside Japan 2012 Training for managers 2016 Introduction of Compliance Awareness Month
Effectiveness Measurement	2000 Self-check at each division 2015 Activities to solicit employee opinion 2016 Compliance awareness survey 2018 Risk surveys (in coordination with Risk and Crisis Management Department)



Kao Business Conduct Guidelines (BCG)

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/compliance_all.pdf

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

Compliance Education

Role-specific compliance training is given to employees entering the company or receiving promotion. In addition, all employees are given periodic compliance review opportunities, undergoing training as organized by the leader of their division and taking BCG refresher tests. Training opportunities on legal and compliance themes are also

provided every year for Executive Officers. One month of the year is also designated as Compliance Awareness Month, and the importance of thoughtful words and actions as well as an open organizational culture is communicated among other topics. Education related to laws and regulations is planned and conducted by designated managing divisions.

Compliance Training System

Training name	Target group	Objective	Frequency
New Employee Orientation	New employees	Study our compliance approach and the BCG	On joining
Training for managers	Japan: New managers Outside Japan: Managers	Group work to build managers' awareness for compliance risk reduction	Japan: When promoted to Manager Outside Japan: Every 3 years
Trainings by division leaders	Managers/Non-manager employees	Division leaders directly communicate the message to employees to make compliance relevant to them personally	Once every 2 years (alternate each year between Japan/outside Japan)
BCG refresher test Compliance awareness survey	Executives/Managers/Non-manager employees	Revisit the BCG and identify divisions with high compliance risks	Once every 2 years (alternate each year between Japan/outside Japan)
BCG Casebook	Managers/Non-manager employees	Study the BCG using specific cases	Revise after revisions to the BCG
Compliance case studies	All employees	Study compliance points to keep in mind through cases at Kao and other companies	Japan: Monthly Outside Japan: Semiannually (April, October)
Executive training sessions	Executive Officers and above	Legal and compliance risk from a management perspective	Annually

Number of Serious Compliance Violations*

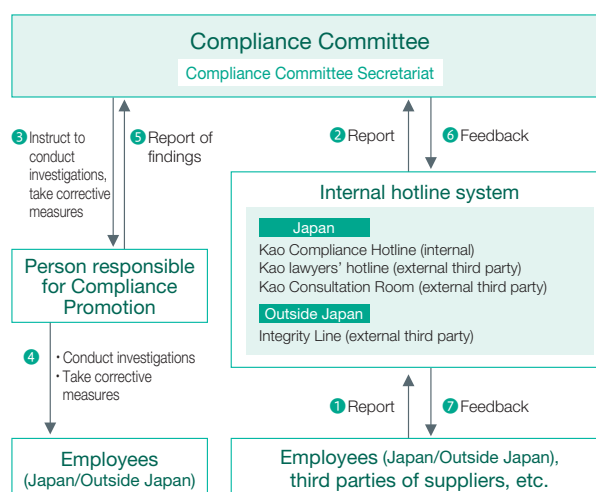
Target value	2017	2018	2019	2020
0	0	0	0	0

* The term "serious compliance violations" is used to refer to compliance violations that seriously impact Kao's operations or cause a serious loss of corporate value.

Compliance Hotline System

Kao has created various systems to find improprieties at an early stage. We have established compliance hotlines in the countries and regions where we operate, protect whistleblowers in accordance with Rules for Operating Compliance Hotlines, and promptly conduct investigations and take corrective measures to resolve any issues.

The causes of compliance issues identified via cases reported to the hotline or by management are analyzed by the division where they occurred or which has supervisory responsibility, and measures are formulated to prevent recurrence. The Compliance Committee Secretariat undertakes to enhance compliance by reviewing the appropriateness of these measures and considering whether the measures should be implemented at other divisions.



TOPICS

Fifteen consecutive years on one of the World's Most Ethical Companies® 2021 list

The Ethisphere Institute develops and shares best practices in business ethics and corporate social responsibility. This award recognizes companies which have demonstrated outstanding performance in transparency, integrity, ethics and compliance. We regard being selected as one of the World's Most Ethical Companies® as an important indicator for the achievement of compliance activities. This award is one of the elements taken into account when evaluating compensation for Directors (excluding Outside Directors) and Executive Officers.



Directors, Audit & Supervisory Board Members and Executive Officers (As of March 26, 2021)



Toshiaki Takeuchi

Representative Director,
Senior Managing Executive Officer

Michitaka Sawada

Director, Chair

Yoshihiro Hasebe

Representative Director,
President and Chief Executive Officer

Tomoharu Matsuda

Representative Director,
Managing Executive Officer



Directors and Audit & Supervisory Board Members

(As of March 26, 2021)

Directors

Title, Name, Number of Shares		Profile	
	Michitaka Sawada	Apr. 1981	Joined Kao Corporation
	Director, Chair	Jul. 2003	Vice President, Sanitary Products Research Laboratories
	Date of birth: Dec. 20, 1955	Jun. 2006	Executive Officer
	Number of Kao shares held: 38,400 shares	Apr. 2007	Vice President, Global Research & Development, Human Health Care
	Other material position(s)	Jun. 2008	Director, Executive Officer
	Outside Director, Panasonic Corporation	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
		Jan. 2021	Director, Chair (current)
	Yoshihiro Hasebe	Apr. 1990	Joined Kao Corporation
	Representative Director, President and Chief Executive Officer	Mar. 2011	Vice President, Research and Development – Beauty Research – Hair Beauty Research
	Date of birth: Jul. 30, 1960	Jan. 2014	Vice President, Research and Development – Core Technology;
	Number of Kao shares held: 11,900 shares		Vice President, Research and Development – Eco-Innovation Research
		Mar. 2014	Executive Officer
		Mar. 2015	Senior Vice President, Research and Development, Global
		Jan. 2016	Managing Executive Officer
		Mar. 2016	Director, Managing Executive Officer
		Jan. 2018	Director, Senior Managing Executive Officer
		Apr. 2018	Senior Vice President, Strategic Innovative Technology, Global
		Jan. 2019	Responsible for Compliance
		Mar. 2019	Representative Director, Senior Managing Executive Officer
		Jan. 2021	Representative Director, President and Chief Executive Officer; Responsible for Human Capital Development (current)
	Toshiaki Takeuchi	Apr. 1981	Joined Kao Corporation
	Representative Director, Senior Managing Executive Officer	Mar. 2006	Vice President, Kyushu Office, Kao Customer Marketing Co., Ltd.
	Date of birth: Mar. 22, 1959	Mar. 2009	Vice President, Corporate Planning, Kao Customer Marketing Co., Ltd.
	Number of Kao shares held: 26,900 shares	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, Managing Executive Officer; Representative Director, President, Kao Customer Marketing Co., Ltd.
			Representative Director, Senior Managing Executive Officer (current);
		Jan. 2016	Representative Director, President, Kao Group Customer Marketing Co., Ltd. (current)
	Tomoharu Matsuda	Apr. 1983	Joined Kao Corporation
	Representative Director, Managing Executive Officer	Jan. 2008	President, Kao (Hong Kong) Ltd.
	Date of birth: Nov. 15, 1959	Mar. 2010	Chairman and General Manager, Kao (Taiwan) Corporation
	Number of Kao shares held: 11,100 shares	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; Responsible for Human Health Care Business;
			Responsible for Fabric and Home Care Business; Chairman of the Board, Oribe Hair Care, LLC
		Mar. 2019	Director, Managing Executive Officer; President, Consumer Products, Global (current); Responsible for Kao Professional Services Co., Ltd. (current)
	Sonosuke Kadonaga	Apr. 1976	Joined Chiyoda Corporation
	Outside Director, Chairman of the Board of Directors	Jun. 1981	Masters in Science in Chemical Engineering, Massachusetts Institute of Technology, School of Engineering, U.S.A.
	Date of birth: Aug. 5, 1952		Joined McKinsey & Company, Inc., Japan
	Number of Kao shares held: 13,000 shares	Aug. 1986	President, Intrinsics (current)
	Other material position(s)	Jul. 2009	Director, Kao Corporation (current)
	President, Intrinsics	Jun. 2012	
	Director, Business Breakthrough, Inc.		
	Outside Director, Chairperson of the Audit & Supervisory Committee, Sumitomo Mitsui Banking Corporation		
	Osamu Shinobe	Apr. 1976	Joined ALL NIPPON AIRWAYS CO., LTD. (currently, ANA HOLDINGS INC.)
	Outside Director	Jun. 2007	Member of the Board, ALL NIPPON AIRWAYS CO., LTD.
	Date of birth: Nov. 11, 1952	Apr. 2009	Executive Vice President (<i>jomu torishimariyaku</i>), ALL NIPPON AIRWAYS CO., LTD.
	Number of Kao shares held: 700 shares	Jun. 2011	Executive Vice President (<i>senmu torishimariyaku</i>), ALL NIPPON AIRWAYS CO., LTD.
	Other material position(s)	Apr. 2012	Senior Executive Vice President, ALL NIPPON AIRWAYS CO., LTD.
	Special Advisor, ANA HOLDINGS INC.	Apr. 2013	Member of the Board, ANA HOLDINGS INC.; President and Chief Executive Officer, ALL NIPPON AIRWAYS CO., LTD.
		Apr. 2017	Member of the Board, Vice Chairman, ANA HOLDINGS INC.
		Mar. 2018	Director, Kao Corporation (current)
		Apr. 2019	Special Advisor, ANA HOLDINGS INC. (current)



Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance_002.pdf

Title, Name, Number of Shares		Profile	
	Chiaki Mukai	Apr. 1977	Staff, Department of Surgery, Keio University School of Medicine
	Outside Director	Aug. 1985	Payload Specialist, the National Space Development Agency of Japan (currently, the Japan Aerospace Exploration Agency; JAXA)
	Date of birth: May 6, 1952		Visiting Scientist, Division of Cardiovascular Physiology, Space Biomedical Research Institute, NASA Johnson Space Center
	Number of Kao shares held: 1,600 shares	Jun. 1987	
	Other material position(s)		
	Specially Appointed Vice President, Tokyo University of Science	Sept. 1992	Research Instructor of the Department of Surgery, Baylor College of Medicine
	Astronaut	Apr. 2000	Visiting Professor of the Department of Surgery, Keio University School of Medicine (current)
	Medical Doctor	Apr. 2015	Vice president, Tokyo University of Science; Senior Technical Advisor, JAXA
	M.D., Ph.D.	Jan. 2016	Corporate Executive Fellow, Kao Corporation
	Outside Director, Fujitsu Limited	Apr. 2016	Specially Appointed Vice President, Tokyo University of Science (current)
		Mar. 2019	Director, Kao Corporation (current)
	Nobuhide Hayashi	Apr. 1980	Joined The Fuji Bank, Limited
	Outside Director	Apr. 2007	Executive Officer – Corporate Banking Division #13, Mizuho Corporate Bank, Ltd.
	Date of birth: Mar. 27, 1957	Apr. 2009	Managing Executive Officer – Japanese Business Promotion, Mizuho Corporate Bank, Ltd.
	Number of Kao shares held: 400 shares	Jun. 2011	Managing Director and Head of International Banking Unit, Mizuho Corporate Bank, Ltd.
	Other material position(s)	Apr. 2013	Deputy President & Deputy President Executive Officer, Mizuho Financial Group Inc.;
	Senior Advisor, Mizuho Bank, Ltd.		Deputy President & Deputy President Executive Officer, Mizuho Bank, Ltd.;
	Outside Director, Baroque Japan Limited	Jun. 2013	Representative Director, Deputy President, Mizuho Corporate Bank, Ltd.
	Outside Audit & Supervisory Board Member, JTB Corp.	Jul. 2013	Director, Deputy President, Mizuho Financial Group Inc.
	Outside Auditor, Tobu Railway Co., Ltd.	Apr. 2014	Representative Director, Deputy President, Mizuho Bank, Ltd.
		Apr. 2017	Representative Director, President and CEO, Mizuho Bank, Ltd.
		Mar. 2019	Director, Chairman, Mizuho Bank, Ltd.
		Apr. 2019	Director, Kao Corporation (current)
			Senior Advisor, Mizuho Bank, Ltd. (current)

Audit & Supervisory Board Members

Title, Name, Number of Shares		Profile	
	Hideko Aoki	Aug. 1982	Joined Kao Corporation
	Full-time Audit & Supervisory Board Member	Apr. 2007	Vice President, Product Quality Management Division
	Date of birth: Aug. 21, 1954	Jun. 2010	Executive Officer
	Number of Kao shares held: 22,235 shares	Mar. 2015	Managing Executive Officer
		Jan. 2019	Responsible for Special Missions
		Mar. 2019	Full-time Audit & Supervisory Board Member (current)
	Sadanao Kawashima	Apr. 1983	Joined Kao Corporation
	Full-time Audit & Supervisory Board Member	Apr. 2007	Audit & Supervisory Board Member, Kanebo Cosmetics Inc.
	Date of birth: May 22, 1959	Jun. 2011	Vice President, Investor Relations Group, Corporate Strategy
	Number of Kao shares held: 0 shares	Sept. 2015	General Manager, Department of Internal Audit
		Mar. 2019	Audit & Supervisory Board Member with title, Office of the President, Business Management Support
		Mar. 2021	Full-time Audit & Supervisory Board Member (current)
	Hideki Amano	Apr. 1976	Joined Arthur Andersen LLP
	Outside Audit & Supervisory Board Member	Sept. 1980	Registered as Certified Public Accountant
	Date of birth: Nov. 26, 1953	Jun. 1984	Resided in Dusseldorf Office of Arthur Andersen
	4,000 shares	Sept. 1992	Representative employee, Inoue Saito Eiwa Audit Corporation
	Other material position(s)	Sept. 2011	Vice President (Audit Management), KPMG AZSA LLC;
	Certified Public Accountant	Jul. 2015	member, KPMG Global Audit Steering Group
	Nobuhiro Oka	Apr. 1976	Executive Senior Partner, KPMG AZSA LLC
	Outside Director, TOPPAN FORMS CO., LTD.	Mar. 2017	Audit & Supervisory Board Member, Kao Corporation (current)
	Outside Audit & Supervisory Board Member, Ajinomoto Co., Inc.		
	Outside Audit & Supervisory Board Member, Seiko Holdings Corporation		
	Other material position(s)		
	Attorney-at-Law, Doctorate (Law) (Chuo University)		
	Takahiro Nakazawa	Oct. 1981	Joined PriceWaterhouse Tokyo
	Outside Audit & Supervisory Board Member	Jun. 1983	Joined Aoyama Audit Corporation
	Date of birth: May 30, 1958	Mar. 1985	Registered as Certified Public Accountant
	Number of Kao shares held: 0 shares	Jul. 2001	Representative Partner, Chuo-Aoyama Audit Corporation
	Other material position(s)	Sept. 2006	Representative Partner, Arata Audit Corporation (currently, PricewaterhouseCoopers Arata LLC)
	Certified Public Accountant	Jul. 2018	Director, Nakazawa Certified Public Accountant Office (current)
		Mar. 2020	Audit & Supervisory Board Member, Kao Corporation (current)

Executive Officers (As of April 1, 2021)



Yoshihiro Hasebe

President and Chief Executive Officer

Responsible for Human Capital Development



Yoshihiro Murakami

Managing Executive Officer

President, Consumer Products - Cosmetics Business, Global;
Senior Vice President, Consumer Products - DX Co-Creation,
Global;
Representative Director, President, Kanebo Cosmetics Inc.;
Chairman of the Board, Molton Brown Limited



Toshiaki Takeuchi

Senior Managing Executive Officer

Representative Director, President, Kao Group Customer
Marketing Co., Ltd.



Hideaki Kubo

Managing Executive Officer

Senior Vice President, Research and Development,
Global



Tomoharu Matsuda

Managing Executive Officer

President, Consumer Products, Global;
Responsible for Kao Professional Services Co., Ltd.



Toru Nishiguchi

Managing Executive Officer

President, Consumer Products, Asia; Responsible for Consumer
Products - Merries Business; 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, Kanebo Cosmetics (China)
Co., Ltd.; Chairman of the Board and President, Kao (Hefei) Co., Ltd.



Shigeru Ueyama

Managing Executive Officer

Senior Vice President, Corporate Strategy, Global



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



Masakazu Negoro

Managing Executive Officer

Senior Vice President, Procurement, Global;
Responsible for Accounting and Finance



Kenichi Yamauchi

Executive Officer

Senior Vice President, Accounting and Finance, Global;
President, Kao America Inc.



Yasushi Wada

Managing Executive Officer

Senior Vice President, Product Quality Management,
Global;
Responsible for Legal and Compliance



Ryoichi Harada

Executive Officer

Senior Vice President, Enterprise Information Solutions,
Global



Osamu Tabata

Managing Executive Officer

Senior Vice President, Supply Chain Management,
Global;
Responsible for TCR Promotion



Hiroaki Taki

Executive Officer

Senior Vice President, Consumer Products -
Marketing Emergence, Global



David J. Muenz

Executive Officer

Senior Vice President, ESG, Global



Hiroaki Yamaguchi

Executive Officer

Vice President, Supply Chain Management -
Manufacturing Plant Center, Global



Akio Matsui

Executive Officer

Responsible for Corporate Strategy - Integrated Strategy
Planning



Atsushi Koizumi

Executive Officer

Senior Vice President, Consumer Products -
Business Planning and Management, Global



Hideichi Nitta

Executive Officer

Vice President, Supply Chain Management -
Demand and Supply Planning Center, Global



Kotaro Nuriya

Executive Officer

President, Consumer Products - Health & Beauty Care
Business, 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.;
Chairman of the Board, Kao Chemicals Europe, S.L.



Motomitsu Hasumi

Executive Officer

Vice President, Research and Development -
Household Products Research, Global;
Responsible for Research and Development -
Consumer Products Technology



Shigeo Nakai

Executive Officer

Vice President, Research and Development -
Performance Chemicals Research, Global;
Responsible for Research and Development -
Environmental New Business



Mami Murata

Executive Officer

Vice President, Corporate Strategy - Strategic Public
Relations, Global



Hideki Mamiya

Executive Officer

Senior Vice President, Human Capital Development,
Global;
President, Kao Group Corporate Pension Fund;
Chairman, Kao America Inc.



Natsumi Hotta

Executive Officer

President, Consumer Products - Hygiene & Living Care
Business, Global



Masaru Takeyasu

Executive Officer

Senior Vice President, Legal and Compliance, Global



Akira Shimotoyodome

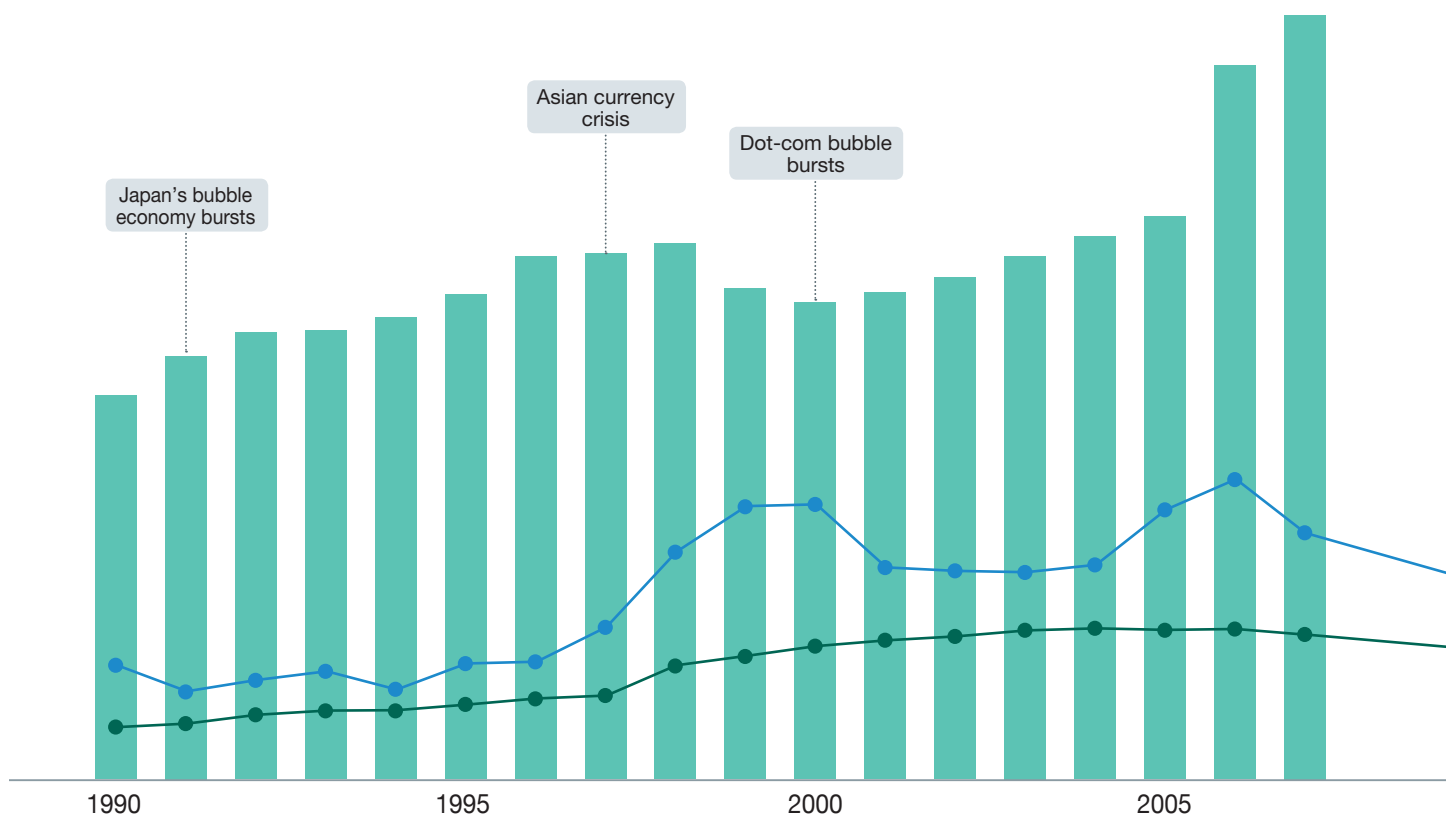
Executive Officer

President, Consumer Products - Life Care Business,
Global

Financial and Non-financial Highlights

Changes in Sales, Operating Income and Share Price

■ Net sales ● Operating income ● Stock price



FY1990

FY2020

Foreign consolidated subsidiaries

11 companies

94 companies

Sales ratio outside Japan

* Based on customer location

15.9%

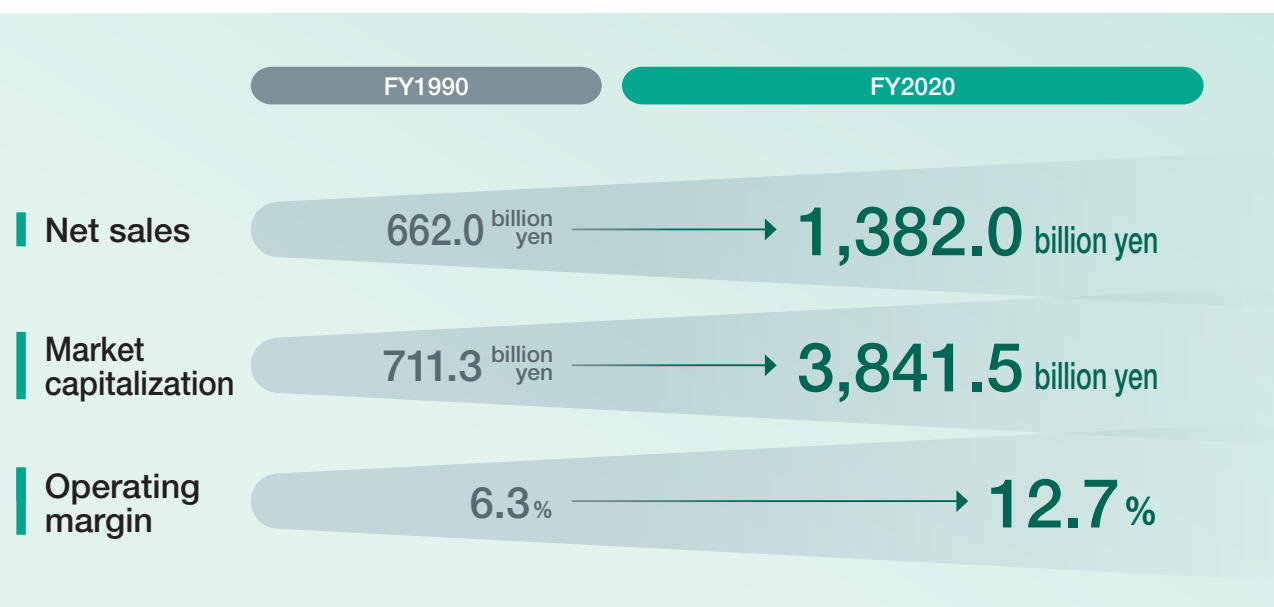
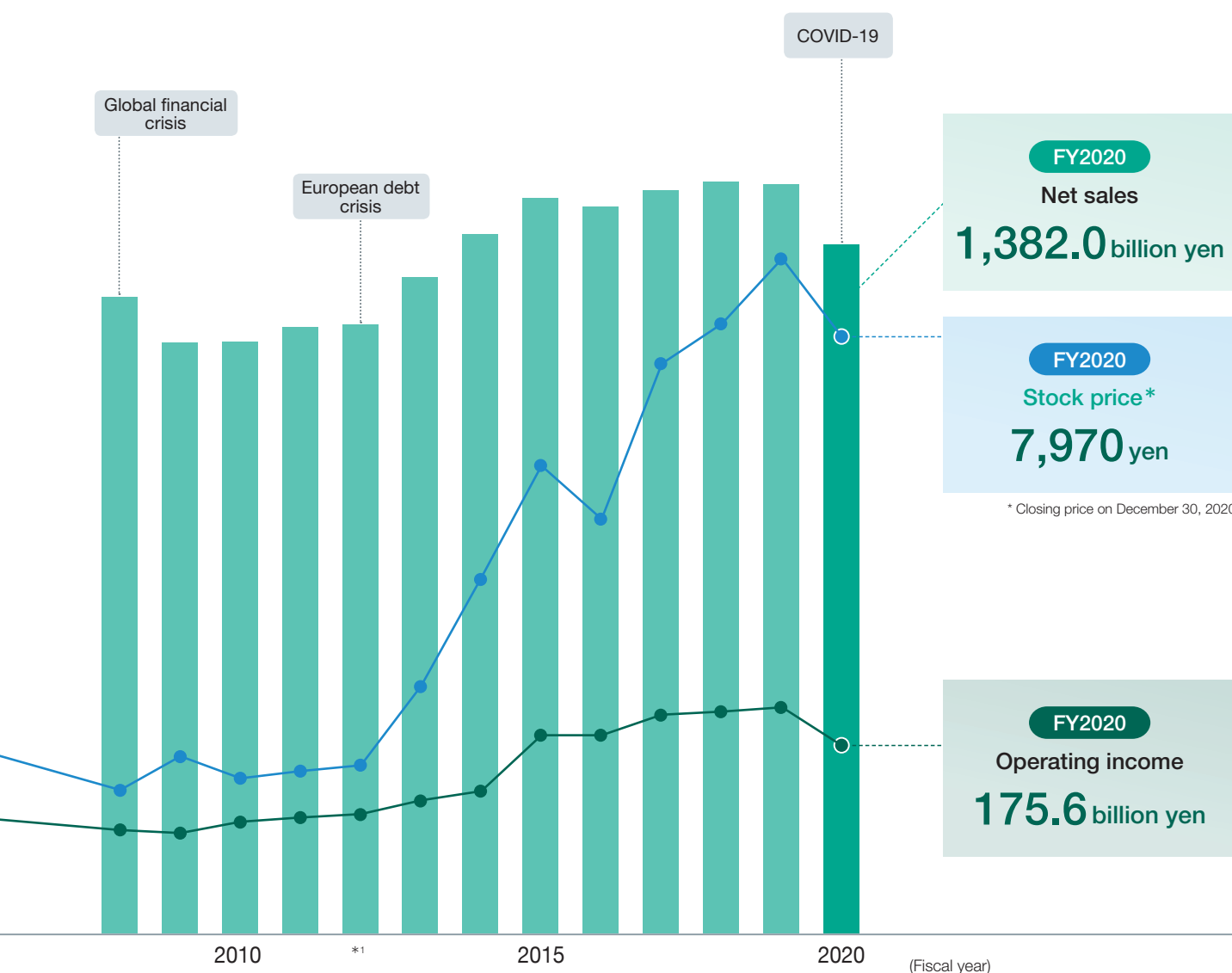
38.2%

Female employees as percentage of total

* Regular employees of Kao Group companies within Japan

32%

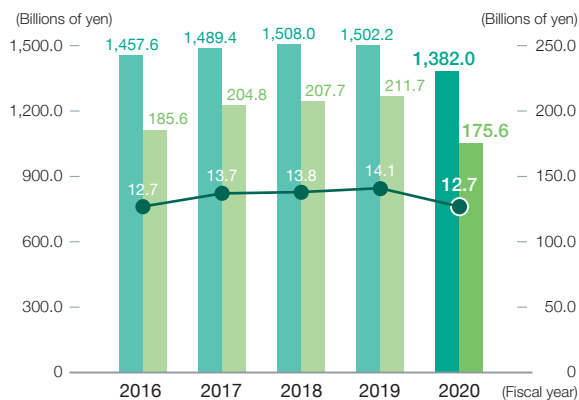
51%



*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.

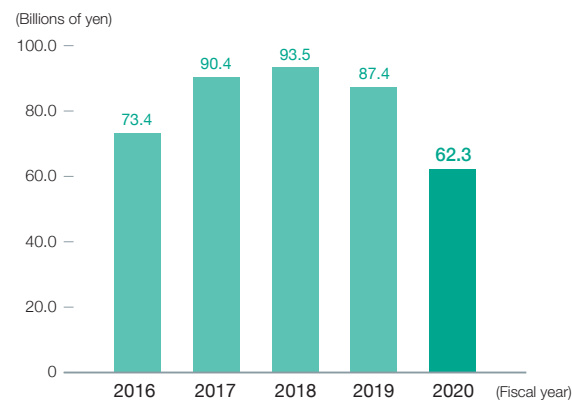
Financial and Non-financial Highlights

Financial Highlights

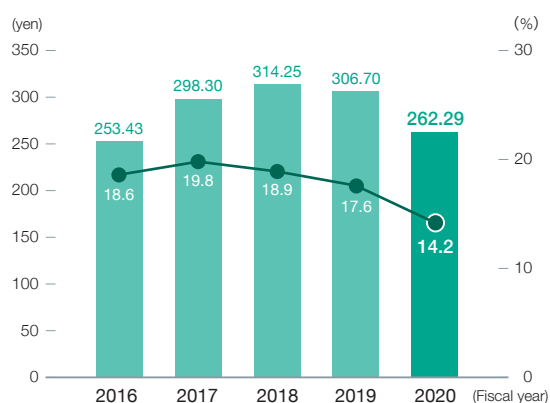
Net Sales^{*1}/Operating Income/Operating Margin

■ Net sales (left) ■ Operating income (right) ● Operating margin

*1 As of the fiscal year ended December 31, 2020, the Company has changed its method of recognizing sales for some transactions from the gross amount to the net amount.

EVA^{*2}

*2 EVA® is a registered trademark of Stern Stewart & Co.

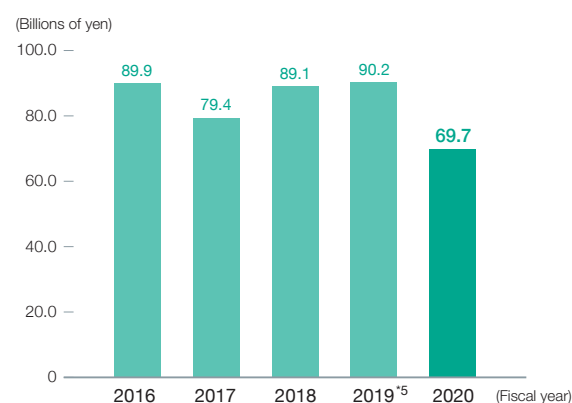
ROE^{*3}/EPS^{*4}

● ROE (right) ■ EPS (left)

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

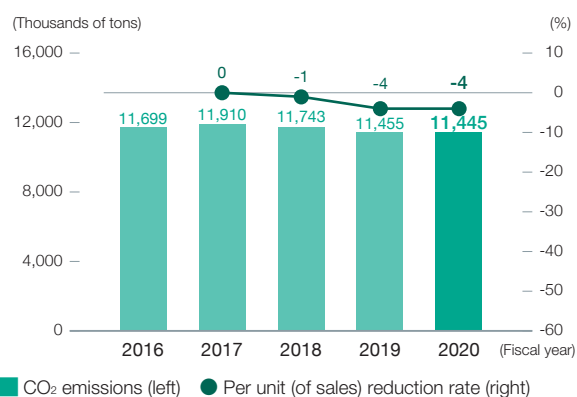
*4 Basic earnings per share

Trend in Capital Investments

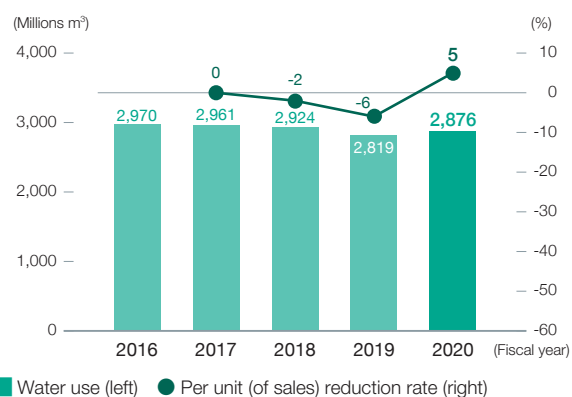


*5 Excludes right-of-use assets from the fiscal year ended December 31, 2019.

Non-financial Highlights

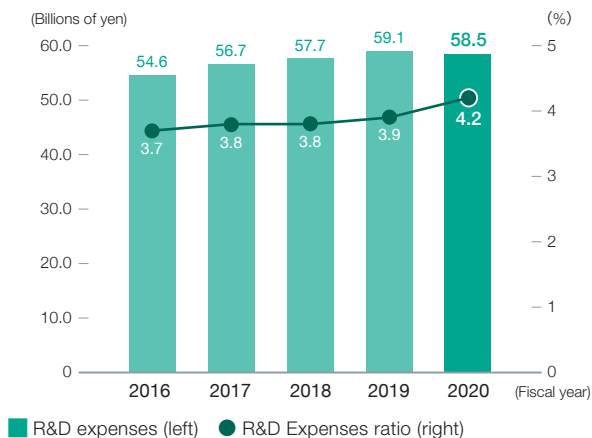
CO₂ Emissions across the Product Lifecycle^{*7}

■ CO₂ emissions (left) ● Per unit (of sales) reduction rate (right)

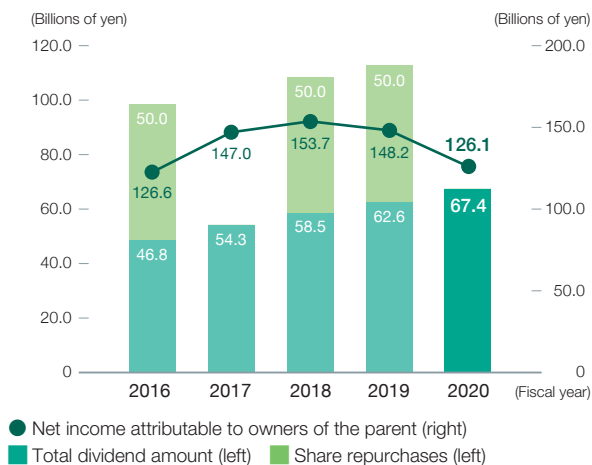
Water Use across the Product Lifecycle^{*8}

■ Water use (left) ● Per unit (of sales) reduction rate (right)

R&D Expenses/R&D Expenses Ratio

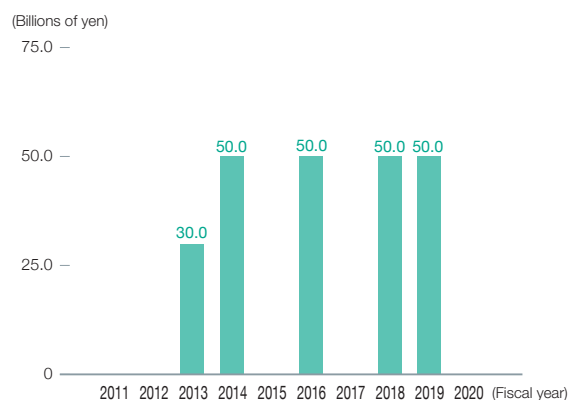


Net Income Attributable to Owners of the Parent/Shareholder Returns^{*6}

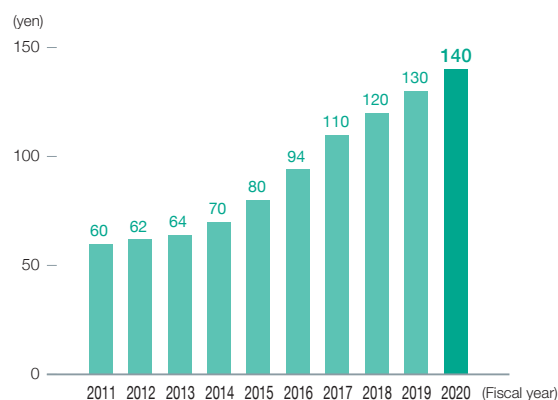


^{*6} Excludes repurchase of shares of less than one trading unit

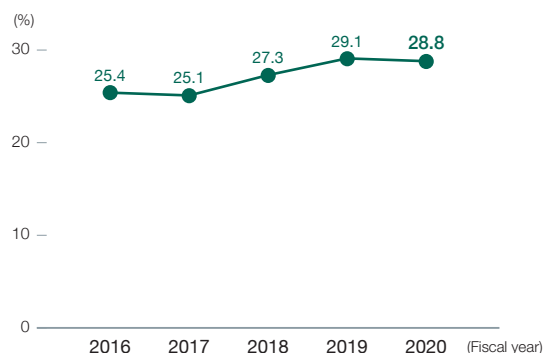
Status of Share Repurchases



Performance of Cash Dividends per Share



Percentage of Female Managers^{*9}



^{*7} "CO₂ emissions across the product lifecycle" is defined as the combined total for the amount of lifecycle emissions of individual products, excluding emissions during manufacturing and distribution, multiplied by their annual sales quantity and the amount of emissions from the group's manufacturing and distribution processes. However, this amount does not include emissions related to the use and disposal of Chemical products.

^{*8} "Water use across the product lifecycle" is calculated by multiplying lifecycle water use of individual products, excluding use during manufacturing and distribution, by their annual sales quantity and the amount from the group's manufacturing and distribution processes. This amount includes water used for procurement in regard to Chemical products but does not include water used in the use and disposal of such products.

^{*9} Regular employees of Kao Group companies

External Evaluation (As of March 26, 2020)

First Japanese Corporation to Receive Triple A Score

CDP, a leading international NPO, selected Kao Corporation in its 2020 survey for inclusion in the A List, the highest rating, in the categories of climate change, forest and water. Just 10 companies out of 5,800 firms evaluated received triple A rating worldwide. Kao Corporation received high praise for its response to environment issues.



Selected as One of the World's Most Ethical Companies® (15th consecutive year)

Kao Corporation was selected by U.S. think-tank Ethisphere Institute for inclusion in the World's Most Ethical Companies® for the 15th year in a row. Kao has been chosen every year since the Institute began its ranking in 2007, making it the only company in Japan and greater Asia with this honor. Kao has made the securing of inclusion on the list a Key Performance Indicator (KPI) for its executive officers.



Named to the Dow Jones Sustainability World Index (Seventh consecutive year)

Kao Corporation was selected for inclusion in the 2020 Dow Jones Sustainability World Index (DJSI World) and Dow Jones Sustainability Asia Pacific Index (DJSI Asia Pacific), which are jointly offered by S&P Dow Jones Indices in the U.S. and SAM in Switzerland. For the seventh year in a row, Kao was one of 318 firms (39 Japanese) named out of the 3,467 major companies evaluated.



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.

Member of Dow Jones Sustainability Indices <small>Powered by the S&P Global CSA</small>	 FTSE4Good	 FTSE Blossom Japan	 ETHIBEL SUSTAINABILITY INDEX
 2020 MSCI ESG Leaders Indexes Constituent	 2020 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)		 2020 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX
 Bloomberg Gender-Equality Index 2021	 EURONEXT vigeoEiris INDICES WORLD 120	 ECPI Sense in sustainability	 S&P/JPX カーボン エフィシェン ス指数













External Evaluation

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
World's Most Ethical Companies®	●	●	●	●	●	●	●	●	●	●	●	●	●	●
CDP (climate change)		● Outstanding information disclosure	● Outstanding information disclosure	● Outstanding information disclosure	● Outstanding information disclosure		● Outstanding information disclosure	● Outstanding information disclosure	● Outstanding information disclosure	A-	A-	A-	A	A
CDP (water security)										A-	A	A	A	A
CDP (forests, timber)										A-	A-	A-	A-	A-
CDP (forests, palm oil)										A-	A-	A-	A-	A
CDP (supply chain)									A-	A	A	A	A	A
DJSI World		●	●					●	●	●	●	●	●	●
MSCI ESG Leaders Indexes				●	●	●	●	●	●	●	●	●	●	●
FTSE4Good Index Series		●	●	●	●	●	●	●	●	●	●	●	●	●
Bloomberg Gender-Equality Index												●	●	●



The FTSE4Good index series
www.ftse.com/products/indices/FTSE4Good
 MSCI
www.msci.com/

Evaluations from External Organizations

Financial Data

Historical Data

IFRS	(Millions of yen)					
	Dec. 2020	Dec. 2019	Dec. 2018	Dec. 2017	Dec. 2016	Dec. 2015
For the year:						
Economic Value Added (EVA®)	62,265	87,403	93,530	90,394	73,357	58,557
Net sales	1,381,997	1,502,241	1,508,007	1,489,421	1,457,610	1,474,550
Operating income	175,563	211,723	207,703	204,791	185,571	167,318
(% of sales)	12.7	14.1	13.8	13.7	12.7	11.3
Income before income taxes	173,971	210,645	207,251	204,290	183,430	166,038
Net income	128,067	150,349	155,331	148,607	127,889	105,952
Net income attributable to owners of the parent	126,142	148,213	153,698	147,010	126,551	105,196
Net cash flows from operating activities	214,718	244,523	195,610	185,845	184,307	181,672
Net cash flows from investing activities	(61,941)	(94,266)	(157,895)	(96,146)	(88,639)	(74,124)
Free cash flow	131,161	128,539	37,715	89,699	95,668	107,548
Net cash flows from financing activities	(87,065)	(126,166)	(108,579)	(53,244)	(95,043)	(20,773)
Capital expenditures	86,149	113,387	89,097	79,355	89,900	82,848
Depreciation and amortization	86,080	83,369	60,662	54,508	51,116	57,423
Research and development expenses	58,509	59,143	57,673	56,703	54,567	52,699
(% of sales)	4.2	3.9	3.8	3.8	3.7	3.6
Advertising	71,984	77,545	80,274	89,935	97,437	94,745
(% of sales)	5.2	5.2	5.3	6.0	6.7	6.4
At year end:						
Total assets	1,665,616	1,653,919	1,460,986	1,427,375	1,338,309	1,311,064
Equity attributable to owners of the parent	923,687	857,695	822,360	806,381	679,842	680,996
Ratio of equity attributable to owners of the parent to total assets (%)	55.5	51.9	56.3	56.5	50.8	51.9
Number of employees (people)	33,409	33,603	33,664	33,560	33,195	32,282
Per share:						
Basic earnings per share (EPS) (yen)	262.29	306.70	314.25	298.30	253.43	209.82
Annual cash dividends per share (yen)	140.00	130.00	120.00	110.00	94.00	80.00
Number of issued shares, including treasury shares, at the end of the year (in thousands of shares)	482,000	482,000	488,700	495,000	504,000	504,000
Share price at the end of the year (yen)	7,970	9,025	8,154	7,619	5,541	6,255
Key financial ratios:						
Ratio of net income to equity attributable to owners of the parent (ROE) (%)	14.2	17.6	18.9	19.8	18.6	16.1
Ratio of income before income taxes to total assets (ROA) (%)	10.5	13.5	14.4	14.8	13.8	13.1

1. The Kao Group adopted IFRS for the fiscal year ended December 31, 2016.

2. EVA® is a registered trademark of Stern Stewart & Co.

3. As of the fiscal year ended December 31, 2020, the company has changed its method of recognizing sales for some transactions from the gross amount to the net amount.

4. Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities. Starting from the fiscal year ended December 31, 2019, cash flows from operating activities exclude depreciation of right-of-use assets and other expenses.

5. Capital expenditures include investments in property, plant and equipment, intangible assets, and other non-current assets. Starting from the fiscal year ended December 31, 2019, capital expenditures include investments in right-of-use assets.

(Millions of yen)

Japanese GAAP

	Dec. 2015	Dec. 2014	Dec. 2013	Dec. 2012 (Restated)	Dec. 2012	Mar. 2012	Mar. 2011
For the year:							
Net sales	1,471,791	1,401,707	1,315,217	1,220,359	1,012,595	1,216,096	1,186,831
Business segments							
Beauty Care Business	607,692	589,907	570,268	537,814	444,425	537,938	533,514
Human Health Care Business	280,723	240,077	210,628	189,614	151,977	181,758	175,761
Fabric and Home Care Business	334,416	324,505	311,023	291,988	236,748	285,645	279,008
Consumer Products Business	1,222,831	1,154,489	1,091,919	1,019,416	833,150	1,005,341	988,283
Chemical Business	288,456	288,022	261,192	236,473	208,071	247,635	231,997
Eliminations	(39,496)	(40,804)	(37,894)	(35,530)	(28,626)	(36,880)	(33,449)
Geographic areas							
Japan	1,019,016	997,309	959,405	933,767	720,789	925,339	912,443
Asia	281,533	244,903	199,655	160,005	159,857	—	—
Asia and Oceania	—	—	—	—	—	173,588	152,361
Americas	137,827	124,216	108,599	89,998	89,998	—	—
North America	—	—	—	—	—	85,397	80,328
Europe	154,350	152,056	134,168	110,519	110,519	117,005	112,123
Eliminations	(120,935)	(116,777)	(86,610)	(73,930)	(68,568)	(85,233)	(70,424)
Operating income	164,380	133,270	124,656	111,791	101,567	108,590	104,591
Net income attributable to owners of the parent	98,862	79,590	64,764	53,107	52,765	52,435	46,738
Capital expenditures	83,414	68,484	63,687	—	41,929	47,178	49,101
Depreciation and amortization	73,623	79,660	77,297	—	59,788	79,798	81,380
Cash flows	135,394	125,436	109,497	—	80,200	101,960	97,028
Research and development expenses	51,987	51,739	49,650	—	37,493	48,171	45,516
(% of sales)	3.5	3.7	3.8	—	3.7	4.0	3.8
Advertising	94,496	92,410	86,406	—	67,045	82,209	81,082
(% of sales)	6.4	6.6	6.6	—	6.6	6.8	6.8
At year end:							
Total assets	1,281,869	1,198,233	1,133,276	—	1,030,347	991,272	1,022,799
Net worth	675,608	658,232	628,709	—	582,699	538,030	528,895
Number of employees (people)	33,026	32,707	33,054	—	33,350	34,069	34,743
Per share:							
Net income per share (EPS) (yen)	197.19	156.46	126.03	101.77	101.12	100.46	87.69
Annual cash dividends per share (yen)	80.00	70.00	64.00	—	62.00	60.00	58.00
Net worth (yen)	1,347.29	1,313.63	1,227.54	—	1,116.61	1,031.08	1,013.05
Weighted average number of shares outstanding during the period (in thousands of shares)	501,352	508,687	513,880	—	521,824	521,936	532,980
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

- 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.
- 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.
- As of January 2014, certain changes were made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe.
- 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.
- Net sales by segment include inter-segment sales and transfers.
- Net sales by geographic area including inter-region sales are classified based on the location of Kao Group companies.
- Cash flows are defined as net income attributable to owners of the parent plus depreciation and amortization minus cash dividends.
- Net income per share is computed based on the weighted average number of shares outstanding during the respective years.
- Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.
- Net worth is equity, excluding non-controlling interests and stock acquisition rights.

Financial Data

Consolidated Statement of Financial Position

(Millions of yen)

	Current fiscal year (As of December 31, 2020)	Previous fiscal year (As of December 31, 2019)
Assets		
Current assets		
Cash and cash equivalents	353,176	289,681
Trade and other receivables	200,087	208,839
Inventories	197,641	199,672
Other financial assets	7,257	13,788
Income tax receivables	2,085	2,440
Other current assets	18,150	22,606
Total current assets	778,396	737,026
Non-current assets		
Property, plant and equipment	430,914	436,831
Right-of-use assets	149,543	164,822
Goodwill	177,031	179,707
Intangible assets	48,256	47,770
Investments accounted for using the equity method	8,657	8,287
Other financial assets	23,608	26,104
Deferred tax assets	42,274	47,876
Other non-current assets	6,937	5,496
Total non-current assets	887,220	916,893
Total assets	1,665,616	1,653,919
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	215,842	222,314
Bonds and borrowings	30,465	25,505
Lease liabilities	19,787	19,653
Other financial liabilities	6,571	6,766
Income tax payables	28,109	36,208
Provisions	1,811	2,054
Contract liabilities	23,098	20,616
Other current liabilities	99,721	99,411
Total current liabilities	425,404	432,527
Non-current liabilities		
Bonds and borrowings	97,229	101,636
Lease liabilities	126,725	141,438
Other financial liabilities	7,862	7,527
Retirement benefit liabilities	51,858	80,579
Provisions	9,175	10,122
Deferred tax liabilities	4,584	3,747
Other non-current liabilities	4,585	4,922
Total non-current liabilities	302,018	349,971
Total liabilities	727,422	782,498
Equity		
Share capital	85,424	85,424
Capital surplus	106,618	108,715
Treasury shares	(3,865)	(4,309)
Other components of equity	(43,376)	(32,974)
Retained earnings	778,886	700,839
Equity attributable to owners of the parent	923,687	857,695
Non-controlling interests	14,507	13,726
Total equity	938,194	871,421
Total liabilities and equity	1,665,616	1,653,919

Consolidated Statement of Income

(Millions of yen)

	Current fiscal year (January 1, 2020–December 31, 2020)	Previous fiscal year (January 1, 2019–December 31, 2019)
Net sales	1,381,997	1,502,241
Cost of sales	(791,304)	(848,723)
Gross profit	590,693	653,518
Selling, general and administrative expenses	(415,826)	(442,912)
Other operating income	15,801	15,192
Other operating expenses	(15,105)	(14,075)
Operating income	175,563	211,723
Financial income	1,711	2,027
Financial expenses	(5,839)	(5,231)
Share of profit in investments accounted for using the equity method	2,536	2,126
Income before income taxes	173,971	210,645
Income taxes	(45,904)	(60,296)
Net income	128,067	150,349
Attributable to		
Owners of the parent	126,142	148,213
Non-controlling interests	1,925	2,136
Net income	128,067	150,349
Earnings per share		
Basic earnings per share (Yen)	262.29	306.70
Diluted earnings per share (Yen)	262.25	306.63

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Current fiscal year (January 1, 2020–December 31, 2020)	Previous fiscal year (January 1, 2019–December 31, 2019)
Net income	128,067	150,349
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	168	(6)
Remeasurements of defined benefit plans	16,365	(1,180)
Share of other comprehensive income of investments accounted for using the equity method	25	(17)
Total of items that will not be reclassified to profit or loss	16,558	(1,203)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(9,942)	(2,489)
Share of other comprehensive income of investments accounted for using the equity method	(167)	(36)
Total of items that may be reclassified subsequently to profit or loss	(10,109)	(2,525)
Other comprehensive income, net of taxes	6,449	(3,728)
Comprehensive income	134,516	146,621
Comprehensive income attributable to:		
Owners of the parent	132,941	144,508
Non-controlling interests	1,575	2,113
Comprehensive income	134,516	146,621

Financial Data

Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges
January 1, 2019 (as previously reported)	85,424	108,245	(11,282)	546	(37,032)	(1)
Changes in accounting policy*	—	—	—	—	—	—
January 1, 2019 (after adjustment)	85,424	108,245	(11,282)	546	(37,032)	(1)
Net income	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	(2,598)	1
Comprehensive income	—	—	—	—	(2,598)	1
Disposal of treasury shares	—	(108)	57,006	(98)	—	—
Purchase of treasury shares	—	—	(50,033)	—	—	—
Share-based payment transactions	—	337	—	—	—	—
Dividends	—	—	—	—	—	—
Changes in the ownership interest in subsidiaries	—	241	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—
Total transactions with the owners	—	470	6,973	(98)	—	—
December 31, 2019	85,424	108,715	(4,309)	448	(39,630)	—
Net income	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	(9,738)	(0)
Comprehensive income	—	—	—	—	(9,738)	(0)
Disposal of treasury shares	—	(98)	471	(177)	—	—
Purchase of treasury shares	—	—	(27)	—	—	—
Share-based payment transactions	—	(394)	—	—	—	—
Dividends	—	—	—	—	—	—
Changes in the ownership interest in subsidiaries	—	(1,605)	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(3)	—	—
Total transactions with the owners	—	(2,097)	444	(180)	—	—
December 31, 2020	85,424	106,618	(3,865)	268	(49,368)	(0)

(Millions of yen)

	Equity attributable to owners of the parent					Non-controlling interests	Total equity
	Other components of equity			Retained earnings	Total		
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total				
January 1, 2019 (as previously reported)	6,458	—	(30,029)	670,002	822,360	13,149	835,509
Changes in accounting policy*	—	—	—	740	740	—	740
January 1, 2019 (after adjustment)	6,458	—	(30,029)	670,742	823,100	13,149	836,249
Net income	—	—	—	148,213	148,213	2,136	150,349
Other comprehensive income	(23)	(1,085)	(3,705)	—	(3,705)	(23)	(3,728)
Comprehensive income	(23)	(1,085)	(3,705)	148,213	144,508	2,113	146,621
Disposal of treasury shares	—	—	(98)	(56,799)	1	—	1
Purchase of treasury shares	—	—	—	—	(50,033)	—	(50,033)
Share-based payment transactions	—	—	—	—	337	—	337
Dividends	—	—	—	(60,459)	(60,459)	(1,290)	(61,749)
Changes in the ownership interest in subsidiaries	—	—	—	—	241	(246)	(5)
Transfer from other components of equity to retained earnings	(227)	1,085	858	(858)	—	—	—
Total transactions with the owners	(227)	1,085	760	(118,116)	(109,913)	(1,536)	(111,449)
December 31, 2019	6,208	—	(32,974)	700,839	857,695	13,726	871,421
Net income	—	—	—	126,142	126,142	1,925	128,067
Other comprehensive income	184	16,353	6,799	—	6,799	(350)	6,449
Comprehensive income	184	16,353	6,799	126,142	132,941	1,575	134,516
Disposal of treasury shares	—	—	(177)	(194)	2	—	2
Purchase of treasury shares	—	—	—	—	(27)	—	(27)
Share-based payment transactions	—	—	—	—	(394)	—	(394)
Dividends	—	—	—	(64,925)	(64,925)	(1,269)	(66,194)
Changes in the ownership interest in subsidiaries	—	—	—	—	(1,605)	475	(1,130)
Transfer from other components of equity to retained earnings	(668)	(16,353)	(17,024)	17,024	—	—	—
Total transactions with the owners	(668)	(16,353)	(17,201)	(48,095)	(66,949)	(794)	(67,743)
December 31, 2020	5,724	—	(43,376)	778,886	923,687	14,507	938,194

*It represents the financial effect from the adoption of IFRS 16 "Leases."

Consolidated Statement of Cash Flows

(Millions of yen)

	Current fiscal year (January 1, 2020–December 31, 2020)	Previous fiscal year (January 1, 2019–December 31, 2019)
Cash flows from operating activities		
Income before income taxes	173,971	210,645
Depreciation and amortization	86,080	83,369
Interest and dividend income	(1,571)	(1,885)
Interest expense	2,533	2,840
Share of profit in investments accounted for using the equity method	(2,536)	(2,126)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	3,301	3,323
(Increase) decrease in trade and other receivables	6,443	12,862
(Increase) decrease in inventories	646	(2,848)
Increase (decrease) in trade and other payables	(4,227)	696
Increase (decrease) in retirement benefit liabilities	(28,818)	(3,788)
Other	31,852	(2,936)
Subtotal	267,674	300,152
Interest received	1,516	1,711
Dividends received	2,060	2,146
Interest paid	(2,650)	(2,806)
Income taxes paid	(53,882)	(56,680)
Net cash flows from operating activities	214,718	244,523
Cash flows from investing activities		
Payments into time deposits	(14,053)	(35,188)
Proceeds from withdrawal of time deposits	19,661	36,660
Purchase of property, plant and equipment	(59,396)	(83,959)
Purchase of intangible assets	(10,454)	(9,819)
Other	2,301	(1,960)
Net cash flows from investing activities	(61,941)	(94,266)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(41)	19
Proceeds from long-term borrowings	1,080	46,220
Repayments of long-term borrowings	(48)	(40,054)
Proceeds from issuance of bonds	24,939	—
Redemption of bonds	(24,942)	(12)
Repayments of lease liabilities	(20,912)	(20,565)
Purchase of treasury shares	(28)	(50,033)
Dividends paid to owners of the parent	(64,987)	(60,512)
Dividends paid to non-controlling interests	(1,235)	(1,287)
Other	(891)	58
Net cash flows from financing activities	(87,065)	(126,166)
Net increase (decrease) in cash and cash equivalents	65,712	24,091
Cash and cash equivalents at the beginning of the year	289,681	265,978
Effect of exchange rate changes on cash and cash equivalents	(2,217)	(388)
Cash and cash equivalents at the end of the year	353,176	289,681

Kao Actions and Targets in the ESG Strategy

Kao Actions	Indicator	Results		Mid- to long-term targets		SDGs
		2019	2020	Value	Year	
Making my everyday more beautiful						
Commitment	The number of people empowered to enjoy more beautiful lives—greater cleanliness, easier aging, better health and confidence in self-expression	—	Plan to disclose in 2022*5	1 billion	2030	<div><div>3</div><div>5</div><div>6</div><div>10</div><div>12</div><div>14</div><div>17</div></div>
Improved quality of life	The number of products which contribute to a comfortable, beautiful, healthy life and touch the heart of people*2	—	4.7 billion	7 billion*2	2030	<div><div>3</div><div>5</div><div>12</div><div>17</div></div>
Habits for cleanliness, beauty & health	Cumulative number of people reached by awareness-raising activities for acquiring habits for cleanliness, beauty & health using Kao products and services (cumulative since 2016)*2	30 million	34 million	0.1 billion*2	2030	<div><div>3</div><div>6</div><div>17</div></div>
Universal product design	% of new or improved products that meet Kao's Universal Design Guidelines	44%	53%	100%	2030	<div><div>10</div><div>12</div><div>17</div></div>
Safer healthier products	% of targeted ingredients of concern on which views are disclosed	—	31%	100%	2030	<div><div>3</div><div>12</div><div>14</div><div>17</div></div>
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 2022*5	100%	2030	<div><div>4</div><div>8</div><div>9</div><div>10</div><div>11</div><div>12</div><div>13</div><div>15</div><div>17</div></div>
Sustainable lifestyle promotion	Cumulative number of people reached by awareness-raising activities for promoting environmentally friendly lifestyles and realizing a sustainable world (cumulative since 2016)*2	2.61 million	3.07 million	0.1 billion*2	2030	<div><div>4</div><div>11</div><div>12</div><div>17</div></div>
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 2022*5	100%	2030	<div><div>12</div><div>17</div></div>
Transformative innovation	Cumulative number of proposed or realized products with big positive impact on lifestyles (cumulative since 2019)*3	2	3	10 or more	2030	<div><div>9</div><div>12</div><div>13</div><div>17</div></div>
	Cumulative number of proposed or realized businesses and systems with big positive impact on lifestyles (cumulative since 2019)*2	—	1	10 or more*2	2030	
Responsibly sourced raw materials	% of certified paper products and pulp for consumer products	91%	94%	100%	2025	<div><div>8</div><div>10</div><div>12</div><div>15</div><div>17</div></div>
	Confirm traceability to small oil palm farm	Completed for large plantations	Completed up to own farm managed by oil and fat supplier	Finish	2025	

SUSTAINABLE DEVELOPMENT GOALS



^{*1} New target ^{*2} Change of indicator and target value ^{*3} Change due to enlarging scope ^{*4} Revised the *Find* employee survey to the employee engagement survey

^{*5} Reviewed detailed 2020 requirements ^{*6} Built 2020 data collection system ^{*7} See Zero waste section, *Kirei Lifestyle Plan Progress Report 2021* for detailed information

In May 2021, we established new targets for realizing a decarbonized society, aiming to become aiming to achieve net zero carbon emissions by 2040 and carbon negative by 2050. Based on these targets, we have added decarbonization indicators and revised our target values.

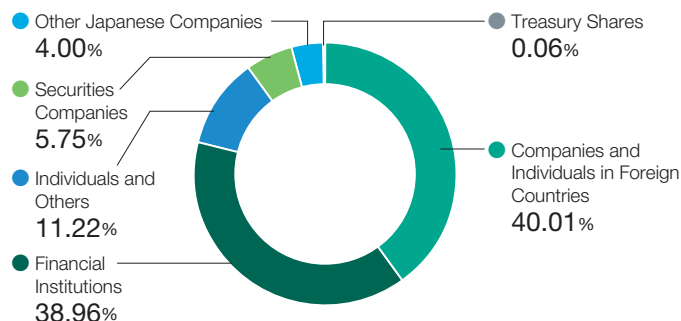
Kao Actions	Indicator	Results		Mid- to long-term targets		SDGs
		2019	2020	Value	Year	
Making the world healthier & cleaner						
Commitment	% of Kao products that leave a full lifecycle environmental footprint that science says our natural world can safely absorb	—	Plan to disclose in 2022*5	100%	2030	3 6 7 12 13 14 15 17
	Kao recognition or achievement level by external ratings firms	CDP Climate Change A, Water A, Forest (Timber) A-, Forest (Palm Oil) A-	CDP Climate Change A, Water A, Forest (Timber) A-, Forest (Palm Oil) A	Highest evaluation level	Every year	3 6 7 12 13 14 15 17
Decarbonization	% reduction in absolute full lifecycle CO ₂ emissions (Base year: 2017)	4%	4%	22%	2030	
	% reduction in absolute scope 1 + 2 CO ₂ emissions (Base year: 2017)	9%	15%	14%*1 55%*2	2025*1 2030	7 12 13 17
	% of renewable energy in electricity consumption*1	21%	28%	100%*1	2030	
Zero waste	Quantity of innovative film-based packaging penetration for Kao and others per annum	—	1 million	300 million	2030	
	Practical use of innovative film-based packaging made from collected pouches*1	—	Continued development	Products launch*1	2025*1	
	Use of PCR (recycled plastic) for PET containers*1		Plan to disclose in 2022*5	Plan to disclose in 2022*5	Plan to disclose in 2022*5	12 14 15 17
	Quantity of waste not for recycling from factories and offices	—	Plan to disclose in 2022*5	Zero	2030	
	Reduction from discarded products and discarded sales promotion materials*1	—	Plan to disclose in 2022*1	Plan to disclose in 2022*1	Plan to disclose in 2022*1	
	% of products which have eliminated eye-catching plastic stickers*7*1	—	73%	100%*1	2021*1	
Water conservation	% reduction in full lifecycle water use per unit of sales (Base year: 2017)	6%	-5%	10%	2030	
	% reduction in full lifecycle water use per unit of sales in regions with water scarcity (Base year: 2017)	—	Plan to disclose in 2022*6	40%	2030	6 12 15 17
Air & water pollution prevention	% of factories which disclose VOC and COD emissions	VOC 0%, COD 100%	VOC 0%, COD 100%	100%	2025	3 6 12 14 17
Walking the right path						
Effective corporate governance	Kao recognition or achievement level by external ratings firms	Highest evaluation level (World's Most Ethical Companies® selection)	Highest evaluation level (World's Most Ethical Companies® selection)	Highest evaluation level	Every year	8 16
	Number of serious compliance violations* per annum * Compliance violations that have a significant impact on management and significantly damage corporate value	Zero	Zero	Zero	Every year	
Full transparency	% of consumer product brands for which people can easily access complete ingredients information	—	8%	100%	2030	8 12 16 17
Respecting human rights	% response rate to human rights due diligence (risk assessment across internal, suppliers, and contractors respectively)	Internal: 100%, suppliers: 20%, contractors: 0%	Internal: 100%, suppliers: 55%, contractors: 0%	100%	2030	5 8 10 17
Inclusive & diverse workplaces	Affirmative answer rate to a question on “Inclusion and Diversity” on our employee engagement survey*4	—	Did not conduct	75%	2030	
	% of female managers	29.4% (% of female employees: 49.6%)	28.8% (% of female employees: 49.7%)	Same as % of female employees	2030	5 8 10
Employee wellbeing & safety	Lost time accident frequency rate (per million hours worked)	0.78	0.53	0.1	2030	
	Average number of lost long-term work days (days/people) * Starting from Japan	129	146	105	2030	3 8
	Ratio of employees who have lost long-term work days per one thousand employees * Starting from Japan	0.198	0.185	0.12	2030	
Human capital development	Affirmative answer rate to a question on “Development Opportunities & Climate” on our employee engagement survey*4	—	Did not conduct	75%	2030	
	Affirmative answer rate to a question on “Engagement/ Employer of Choice” on our employee engagement survey*4	—	Did not conduct	75%	2030	3 4 5 8 10
Responsible chemicals management	% of chemical products and raw materials with disclosed information of benefit and safety to ensure safe usage for our customers	—	Plan to disclose in 2022*6	100%	2030	
	% of areas where impacts on health, environment and safety from chemicals are managed responsibly and sustainably considering their stages from raw materials procurements to disposal	—	Plan to disclose in 2022*6	100%	2030	3 6 12 14 17

Corporate Information (As of December 31, 2020)

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:	72,078
Administrator of Shareholder Register:	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan

Composition of Shareholders

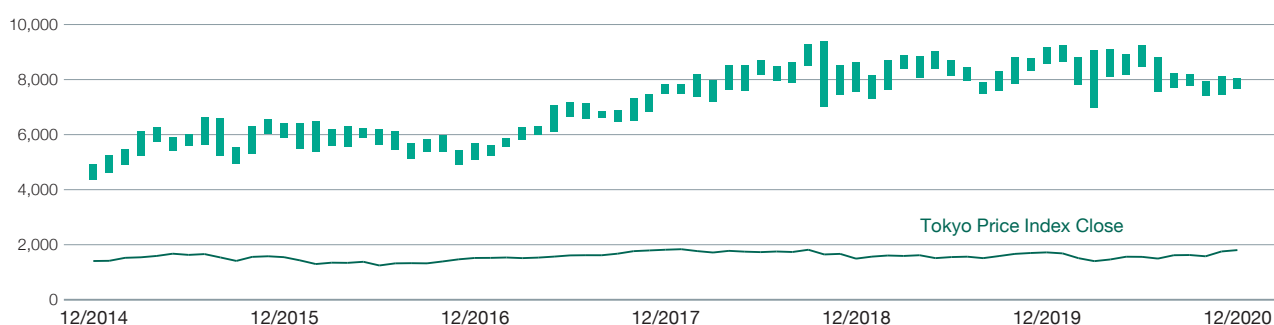


Status of Top 10 Shareholders

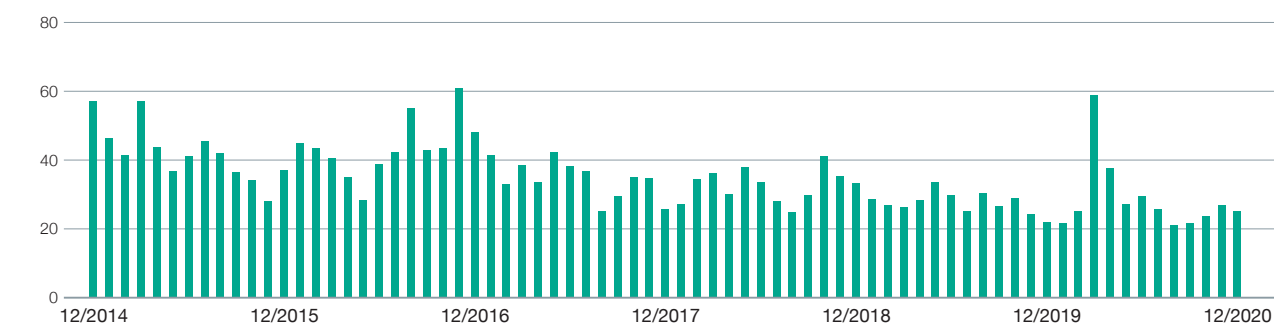
Name of Shareholder	Number of Shares (thousand shares)	Shareholding (percentage)
The Master Trust Bank of Japan, Ltd. (Trust Account)	58,555	12.15
Custody Bank of Japan, Ltd. (Trust Account)	32,814	6.81
STATE STREET BANK AND TRUST COMPANY 505223	14,418	2.99
Custody Bank of Japan, Ltd. (Trust Account 7)	12,091	2.51
SMBC Nikko Securities Inc.	7,968	1.65
STATE STREET BANK WEST CLIENT – TREATY 505234	7,612	1.58
Custody Bank of Japan, Ltd. (Trust Account 5)	7,601	1.58
Custody Bank of Japan, Ltd. (Trust Account 6)	6,859	1.42
Japan Securities Finance Co., Ltd.	6,717	1.39
Nippon Life Insurance Company	6,691	1.39

Share Price Range and Trading Volume (Tokyo Stock Exchange)

Share Price Range (Yen)



Monthly Trading Volume (Million shares)



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:	8,112 (Number of employees in Kao Group consolidated companies: 33,409)
Subsidiaries:	114 (of which 94 are subsidiaries outside Japan)
Associates:	5 (of which 2 are associates outside Japan)



Editorial Policy

This report summarizes the full story of financial and non-financial information, including information on business activities and strategy, business performance and the corporate governance structure, for stakeholders. The Kao Sustainability Data Book, designed to provide more in-depth understanding of the non-financial information in the Integrated Report, is published on the Kao website.



**Kao Sustainability Data Book
Kirei Lifestyle Plan Progress Report 2021**

www.kao.com/global/en/sustainability/pdf/#area-LocalNavBottom01

Kao Sustainability Data Book 2021

www.kao.com/global/en/sustainability/pdf/#area-LocalNavBottom02

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

FY2020 (January 1, 2020–December 31, 2020). However, certain sections of this report include information on activities from periods prior to FY2019 as well as on expected activities from FY2021 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

Sustainability as the only path

The baby's grip seems determined to communicate something. From this baby's tiny hand, we see the connections people have to each other, to the Earth, and ultimately to an enriched future. Putting our hearts and minds together and with our own determination, we will open the door to the future.



Kirei — Making Life Beautiful

To find out more about Kao, see:

Kao Group Official Website
www.kao.com/global/en/



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