

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.

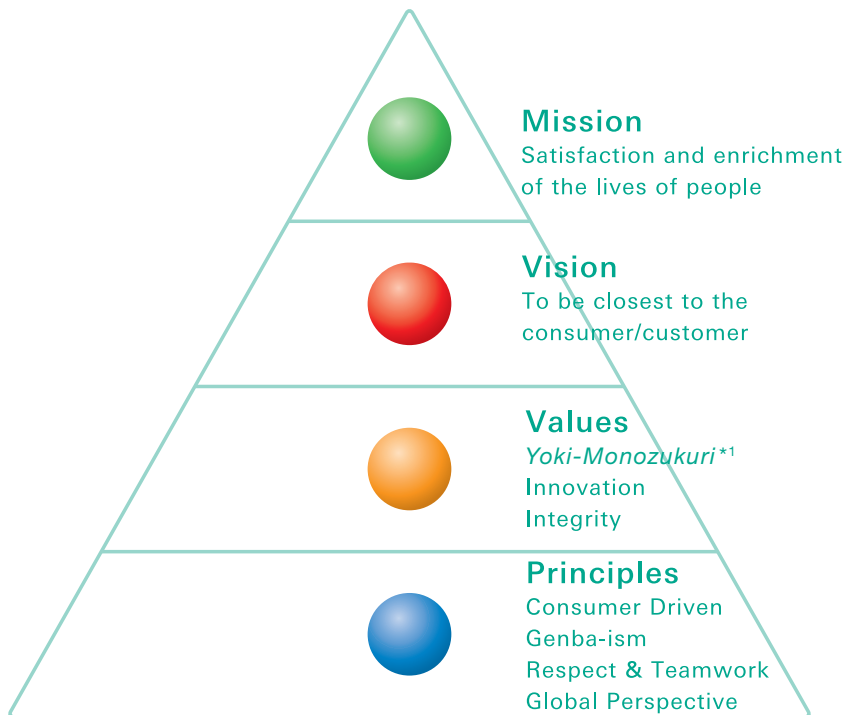
If we accomplish our targets aligned with these three policies, we will be able to achieve record-high sales and profit and meet the expectations of a great many stakeholders as a result.

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

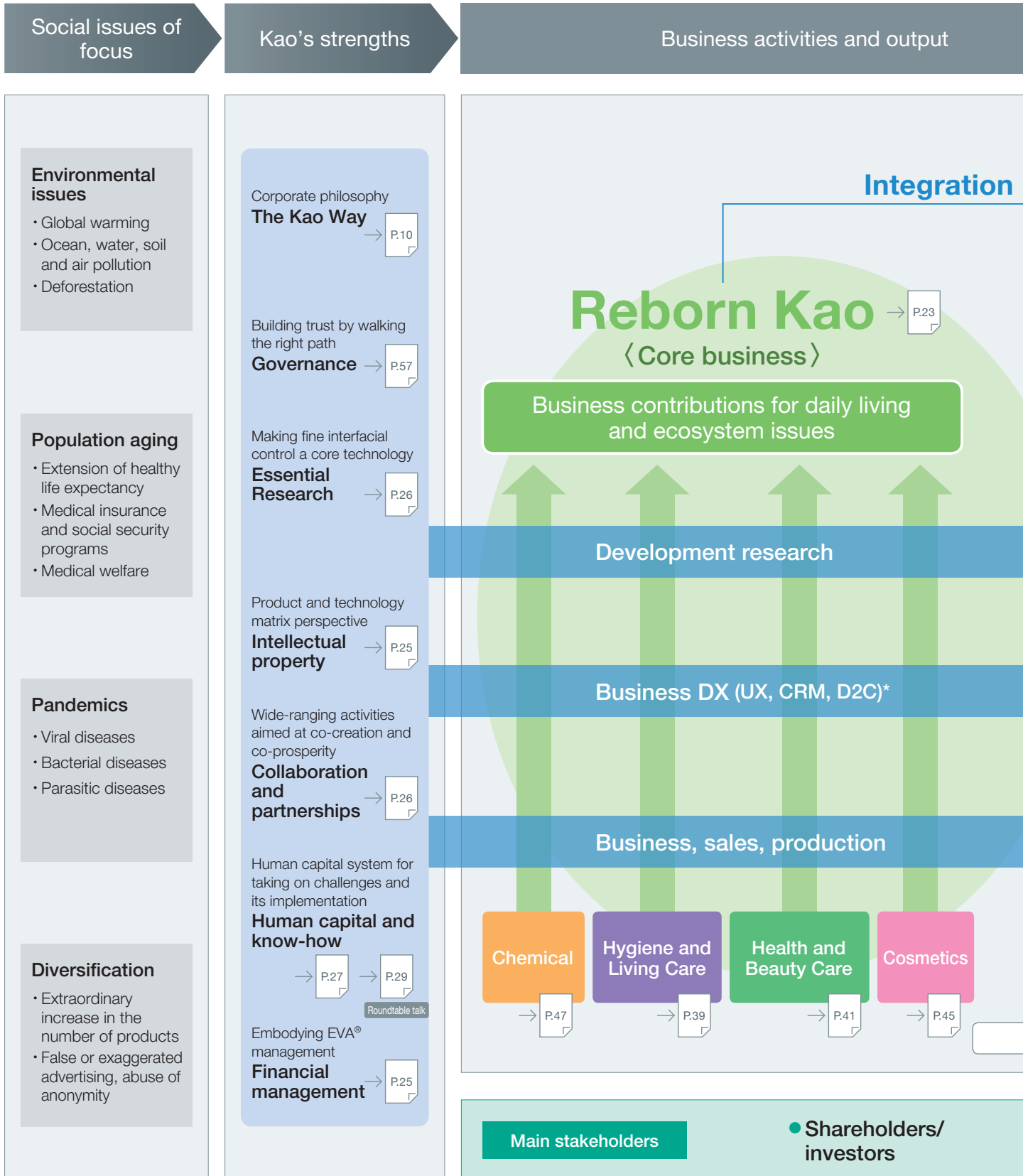
shareholders.

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

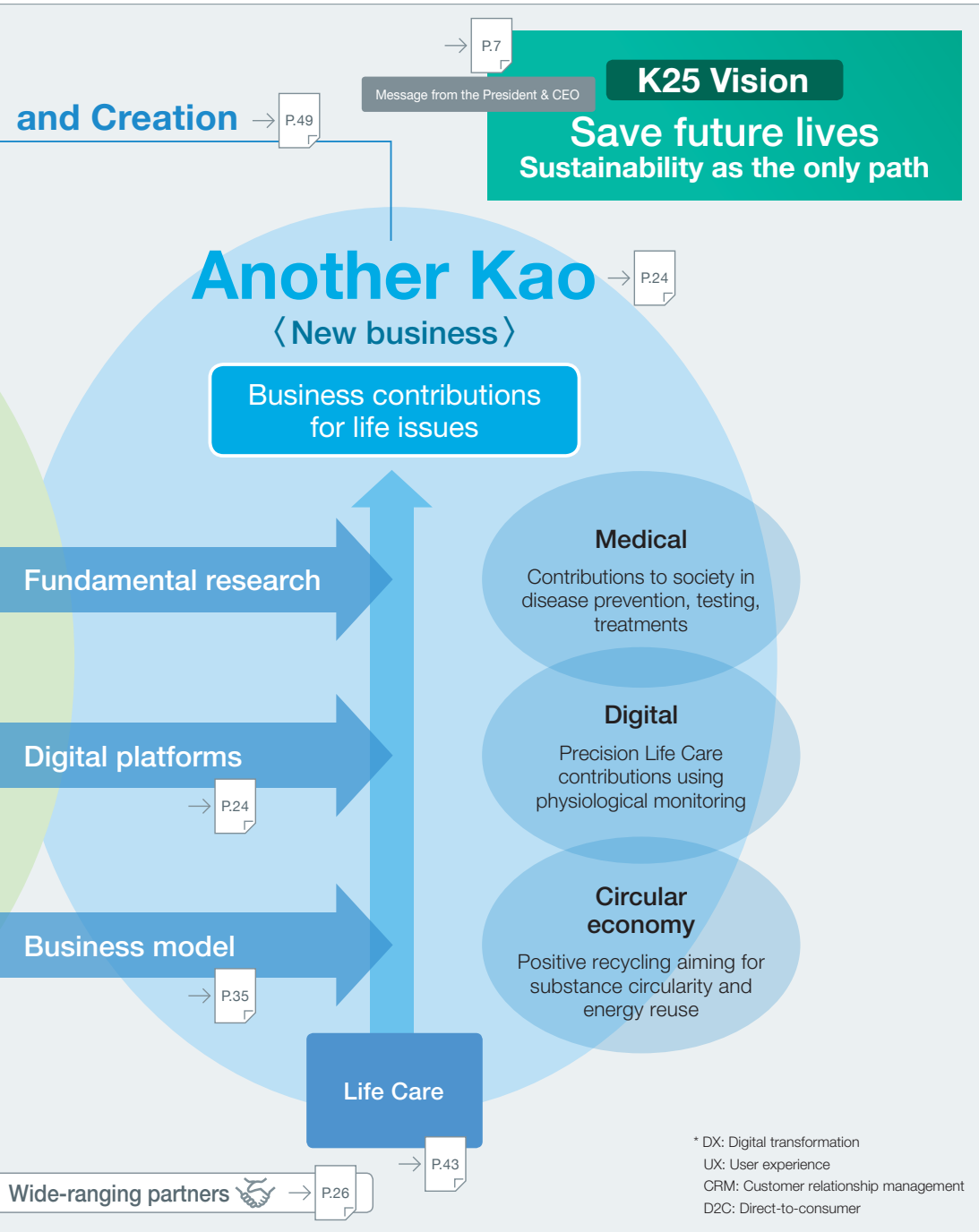
Overview of the Business Kao Is Aiming for

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

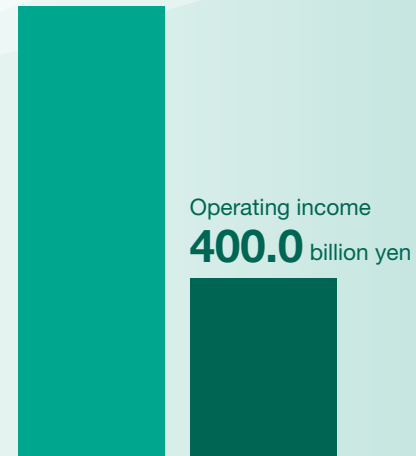
Make Kao a company with a global presence, valuable to society

- 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



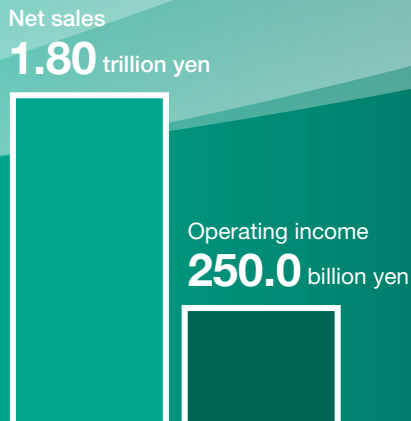
Targets for FY2030

Sustainability as the only path

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

FY2025 record-high sales and profit growth

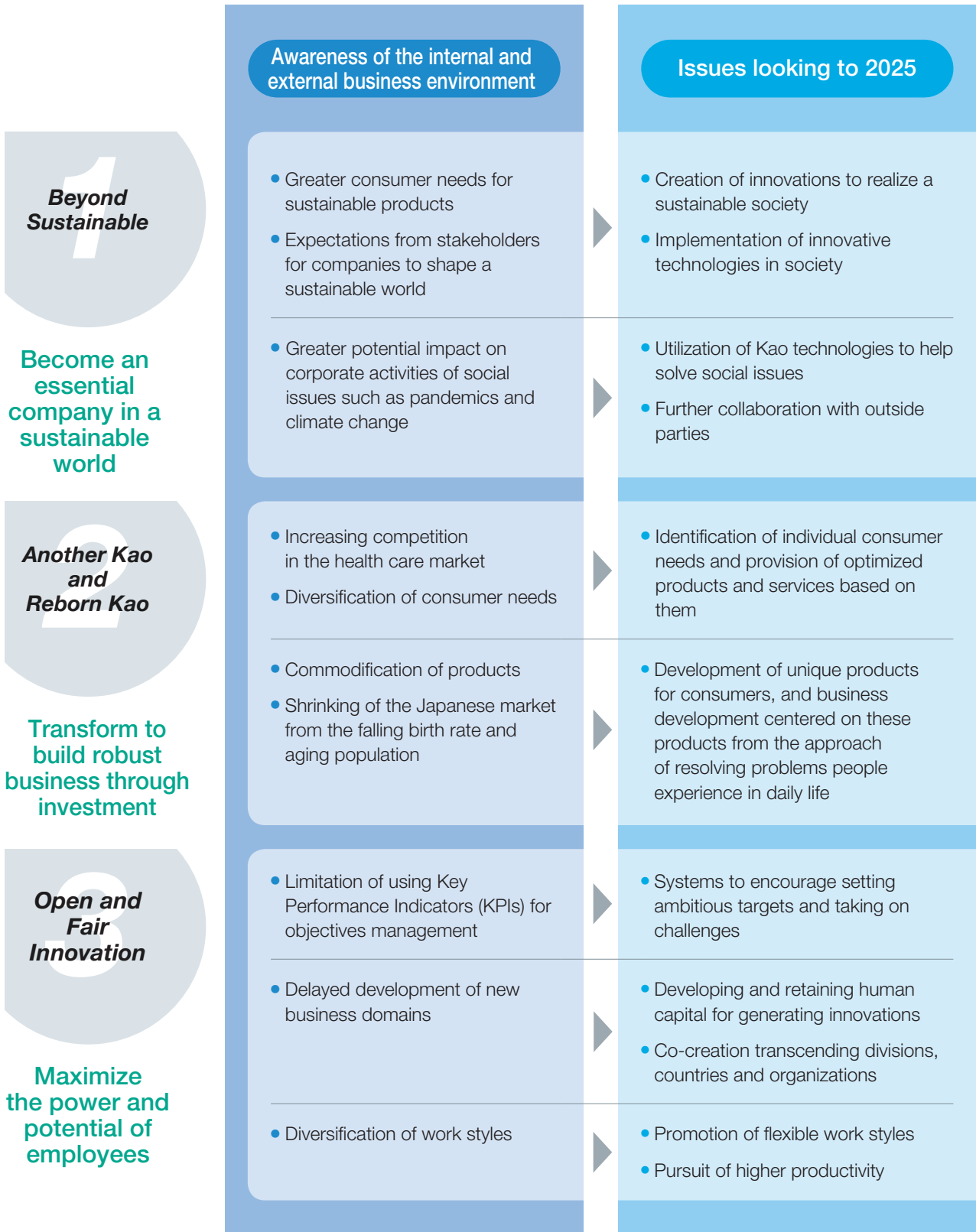
Numerical targets	
Net sales	1.8 trillion yen
Operating income	250 billion yen
Continued increase in cash dividends	36 consecutive years



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.

Become an Essential Company in a Sustainable ESG Strategy: Kirei Lifestyle Plan, Sustainability as the only path

Beyond Sustainable

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

P.89

Please see the Kao Actions and Targets in the ESG Strategy.

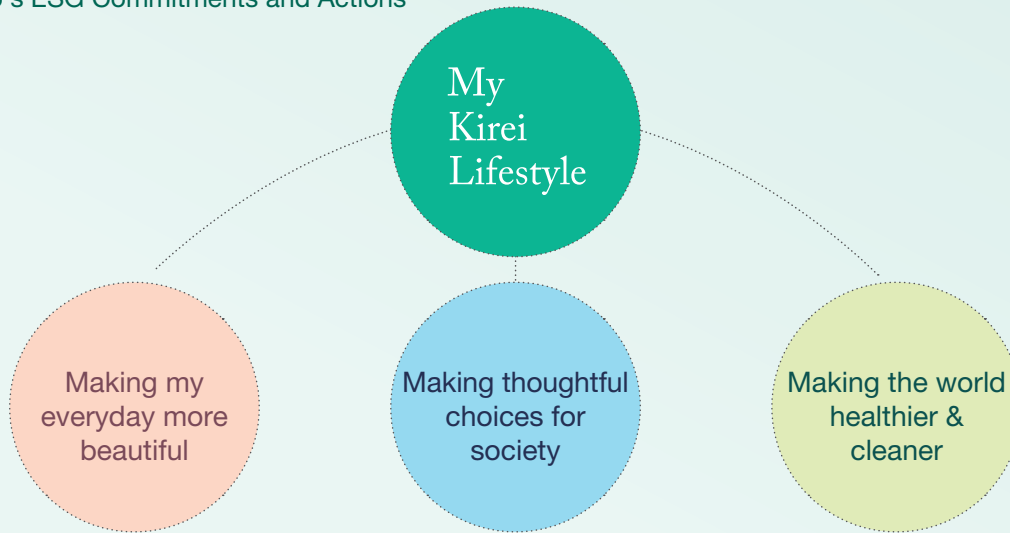
World

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.

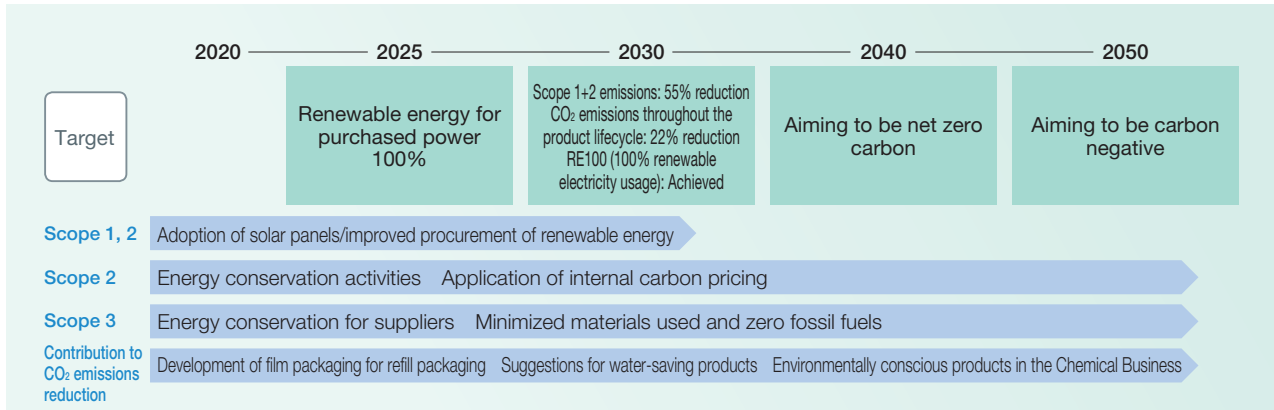
In March 2019, Kao expressed its support for the recommendations of TCFD. We use scenario analysis to evaluate climate-related risks and opportunities, which includes the water risk and plastic cycle, and promote different initiatives based on the results of this evaluation.



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" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #cfd8dc;">Risks</th> <th style="background-color: #cfd8dc;">Opportunities</th> </tr> </thead> <tbody> <tr> <td style="background-color: #e0f2f1;"> <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 style="background-color: #e0f2f1;"> <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.



Note: The information disclosure items related to climate change (disclosed based on TCFD) are mentioned in their entirety in the *Kao Sustainability Data Book 2021*, so please refer to that document.

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.



Transform to Build Robust Business through

Create another Kao and reinforce existing businesses

Another Kao and Reborn Kao

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

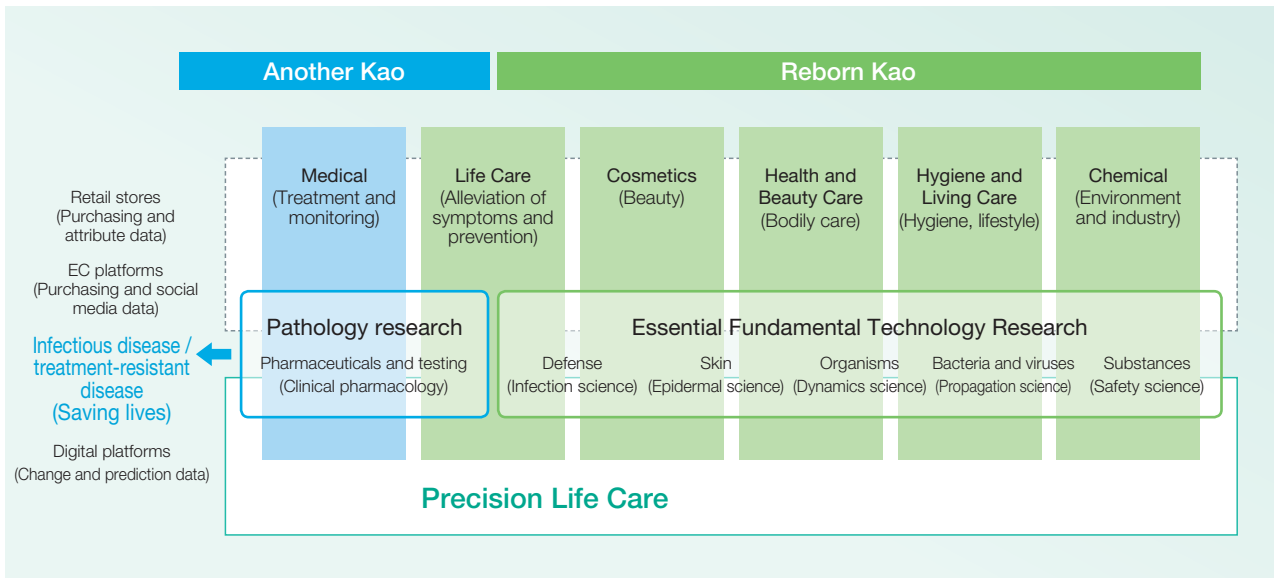
Over the past several years, Kao saw delays in our efforts to shift to digital technology, but thanks to the active deployment of cutting-edge technology, in some categories our business now utilizes industry-leading digital engines. One example is technology that monitors faces, hair and motion, and 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

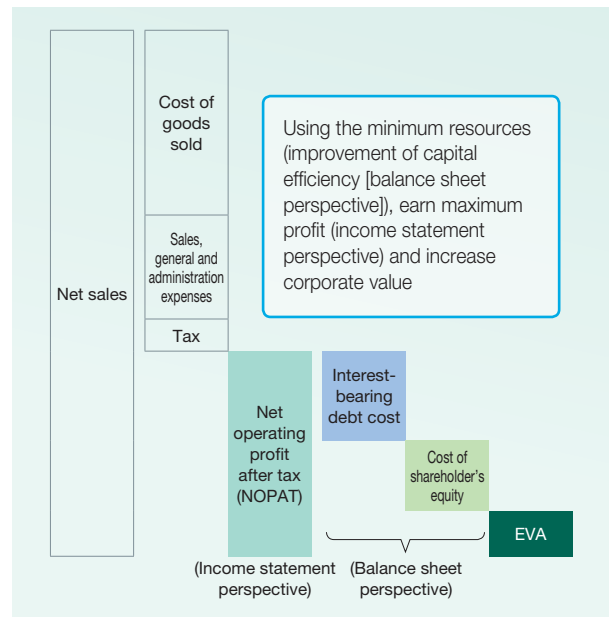
We use Economic Value Added (EVA®) as principal management metric. Continuously increasing EVA leads to greater corporate value, and corresponds not only to long-term benefit for shareholders but also for all of our stakeholders. The concept of “maximum with minimum” that we present in the K25 in fact 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 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

$$\text{EVA} = \text{Net operating profit after tax (NOPAT)} - \text{Cost of capital}$$

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

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

<p>Preferred Networks, Inc.</p> <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 	<p>Kitasato University</p> <ul style="list-style-type: none"> Successfully acquired VHH antibodies, which may lead to development of COVID-19 diagnostics and therapeutic drugs
<p>Lion Corporation</p> <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 	<p>Welcia Holdings Co., Ltd. / Iwata City, Shizuoka Prefecture, Japan</p> <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

Maximize the Power and Potential of Employees

Double the productivity of our business activities

**Open and Fair
Innovation**

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

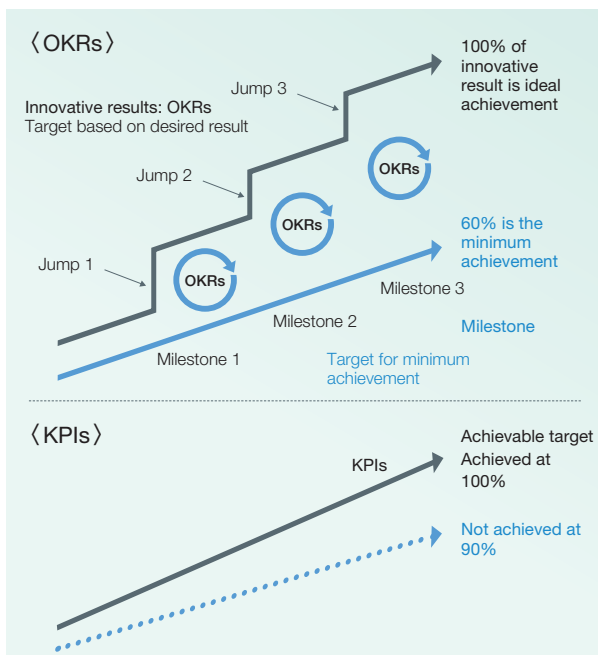
Characteristics of OKRs

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



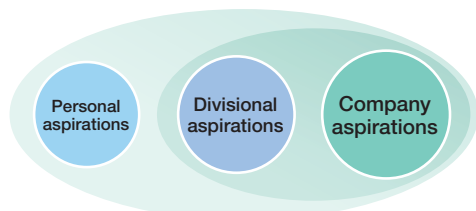
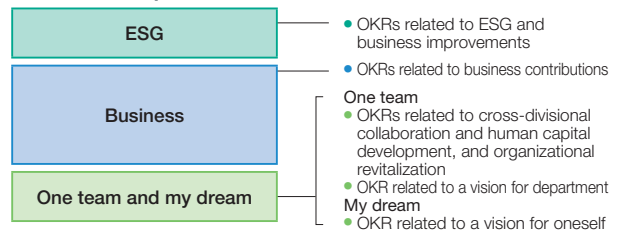
Objectives for Introducing OKR system

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



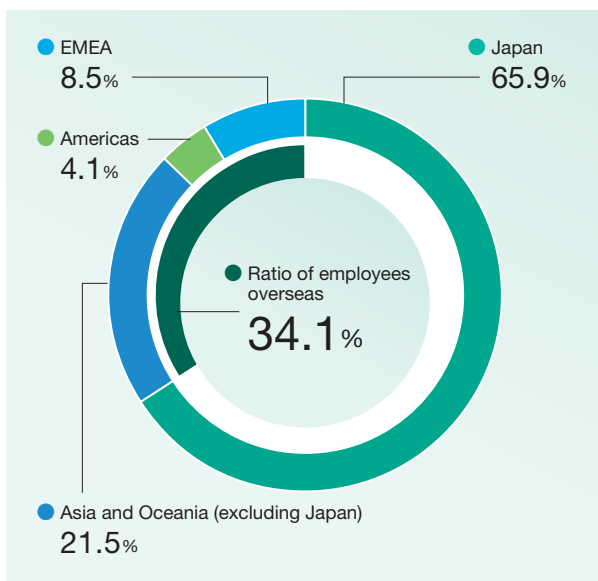
Co-creation by Diverse Human Capital with a High Degree of Specialization

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

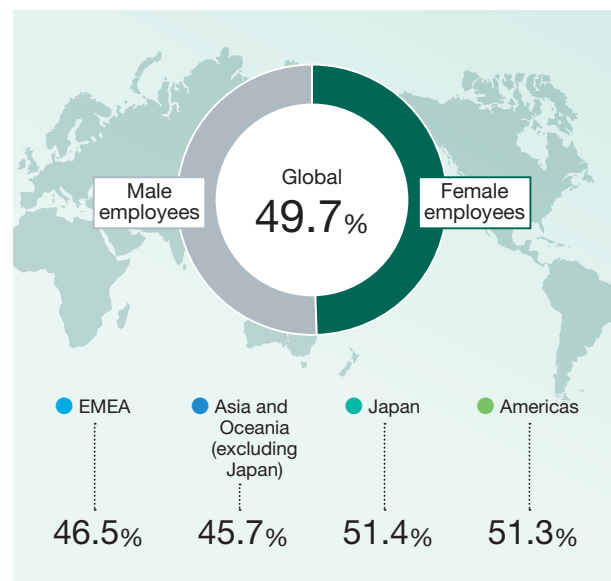
of a mechanism for multi-disciplinary collaboration across our entire global employee base.

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.

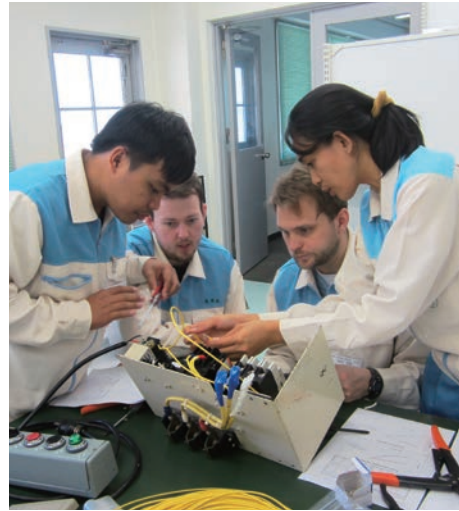
Satoru Tanaka
Executive Officer
Responsible for Consumer Products, Americas and EMEA

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.