



Sustainability as the only path

Kao Integrated Report 2022

For the year ended December 31, 2021

Kao

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Purpose of this Report

The Kao Integrated Report is designed to communicate our value creation story in an easy-to-understand way for our stakeholders. This report summarizes what we aim to be in the future, the value we will provide to society and information about our finances and ESG activities, including strategies and our management foundation, that we will use to realize these goals. This fiscal year, we are releasing various types of information based on the revised Corporate Governance Code of Japan, and have revised the content we publish based on suggestions from readers.

We will continue to improve and expand the Kao Integrated Report through dialogue with our stakeholders, and strive to enhance our contributions to society while driving development and creating corporate value.

The tree motif used in this report expresses our commitment

to live up to our children's dreams for the future that we have received through the Kao International Environment Painting Contest for Children.



Reporting Period

FY2021 (January 1–December 31, 2021)

* Some portions contain activities before FY2020 and from FY2022 (results and planned)

Organizations Covered

Kao Group (Kao Corporation and its subsidiaries and affiliates)

* Some data regarding the environment and society refer to Kao Corporation and subsidiaries (noted in text)

* "Kao" refers to the Kao Group

Accounting Standards

Japanese GAAP applied up to FY2015, and International Financial Reporting Standards (IFRS) applied from FY2016

Referenced Guidelines

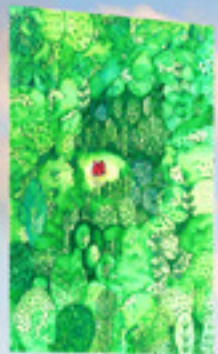
International Integrated Reporting (IIR) Framework

Guidance for Integrated Corporate Disclosure and Company–Investor Dialogues for Collaborative Value Creation

GRI Standards

Date published

June 29, 2022



Stitching the Earth

The Earth is an imperfect place. There are many problems. **Now is the time for everyone to help restore our one and only Earth for future generations.**

Sophie Naysa Gunawan (10)

The Color of Future

We live on the Earth like a giant chameleon clinging to this planet. **Whether it becomes colorful or dim depends on us.**

Liang-En Yu (8)

Litter-Eating Whale

My dream is to become a scientist and invent a litter disposal station.

It would swim around like a real whale in the ocean and convert marine litter into fuel for itself as well as recyclable resources.

Yueheng Hu (8)

A world of harmony and potential for all life

—Kao seeks to build the future of our children's dreams



Change the World!

This is a warning that shows we have to change.

This picture shows how much some people want to change the world.

Alexandra Teodorescu (12)

I Have a Dream

I have a dream: We join together, ride on Bird of Peace and fly to different places to sow magical seeds, **restoring the beauty of original forest on our Earth.**

Hoi Ching Pang (6)



Kao has held the Kao International Environment Painting Contest for Children every year since 2010, listening to more than 100,000 children share their hopes for the future for over 11 years.

Chapter 1

Our Purpose and Value Creation

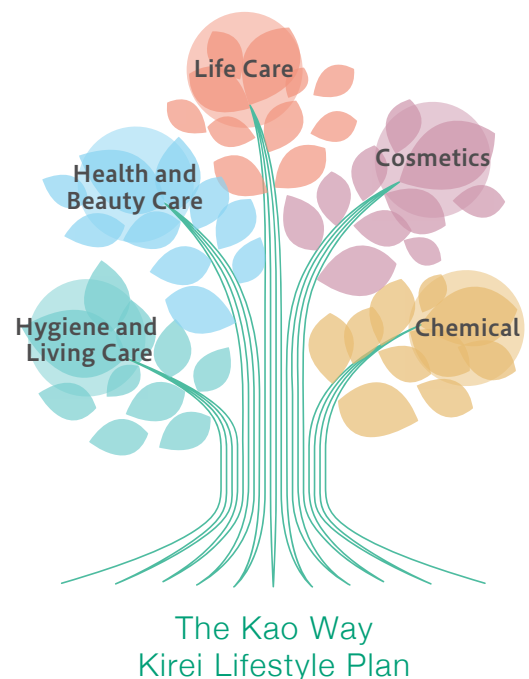
K25 Vision

Protecting future lives
Sustainability as the only path

Strategic Approach

- ◆ Become an essential company in a sustainable world
- ◆ Transform to build robust business through investment
 - Revitalize existing businesses (Reborn Kao)
 - Create new businesses (Another Kao)
- ◆ Maximize the power and potential of employees

Invest to Grow



Our Purpose

To realize a Kirei World in which
all life lives in harmony

Commitment to the Future



Regenerative Lifestyles

Plan for and enable sustainable consumption and regeneration.



Toward Carbon Negative

Move beyond CO₂ reduction and unlock CO₂ recycling.



Zero Waste

Waste nothing. Period.



Precision Life Care

Every person is unique. Our solutions will be too.

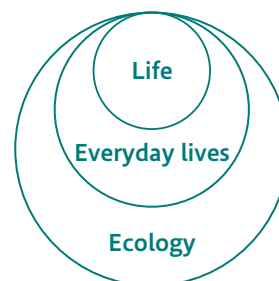


Leave No One Behind

Innovation can be for everyone. We won't stop.

Corporate Message

Kirei—Making Life Beautiful



By maintaining ecological systems,
eliminating sources of harm, and protecting lives,
Kao seeks to contribute to a thriving future
and create a “Kirei” life where everyone can live happily.

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.



Top Message

Rapidly Transforming into the New, Strong and Agile Kao

Y. Haselbe

Representative Director
President and Chief Executive Officer

To Our Stakeholders

The world today continues to experience great turmoil. Rising geopolitical tensions are fueling divisions among people, the pandemic is still with us, and environmental problems are increasing in severity. On the other hand, economic activities are necessary for people to continue living their lives. There have been long-running debates on how to balance human life and the economy, the environment and the economy, and so on. It is incumbent upon us to find this balance in the world in the 21st century.

We have set our vision as “protecting future lives” in light of the tumultuous times that we are in, and have designated life, everyday lives and ecology as three areas where we will contribute to society. In the face of urgent environmental problems and complex social challenges associated with population aging and growing burden of health care expenses, Kao is more committed than ever to enabling healthy and sustainable everyday lifestyles.

Turbulent First Year of the Kao Group Mid-term Plan 2025 (K25)

We kicked off K25, the new Kao Group Mid-term Plan, in FY2021. The strategic approach for K25 consists of the following three parts with a focus on the year 2030. They are: (1) Become an essential company in a sustainable world, (2) Transform to build robust business through investment and (3) Maximize the power and potential of employees. In addition, we must achieve business transformation to a high-revenue-earning business model in

this tough business environment. From the starting year of K25, financial performance for FY2021 should and could have been stronger. While external factors including the prolonged COVID-19 pandemic and hikes in raw material prices are certainly present, it is also a fact that we under-invested in parts of our business that needed more support. This is not an issue that has suddenly emerged, and it signifies that we must further increase the speed of our corporate reforms.

Our Awareness of the Issues

After peaking in 2018, three factors have contributed to a sharp decline in our Economic Value Added (EVA®) result. The first is our delay in moving away from mass marketing in Japan. In the past, we have enjoyed best-in-market loyalty from consumers in many categories by leveraging our distinctive technologies and mass production capabilities. However, consumer needs are diversifying, and in some areas the speed and quality of our manufacturing has not kept pace with these expectations.

The second factor is the collapse in inbound demand for disposable baby diapers, which accounted for a large share of our sales. Our category leader Japanese-made *Merries* had become so popular in Japan that consumers could not even find them in stock. The combination of being out

of stock, with the emergence of local Chinese products, resulted in declining levels of our brand name recognition. It is fair to say that our delay in changing our business model in anticipation of those developments significantly impacted our EVA.

The third factor is the contraction in the cosmetics market driven by the COVID-19 pandemic. Makeup products account for an especially large share of our sales, and the contraction in demand severely impacted our business performance. We had advanced reforms through 2019 to transform the Cosmetics Business into a high-profit business, and as such the overall business impact was magnified because of the investment in business model transformation already underway.

Dual-track Reforms to Revitalize Existing Business and Create New Business

Since last year, we have been implementing dual-track reforms using the concepts of Reborn Kao, which aims to revitalize existing business, and Another Kao, which aims to create future focused new business. Just as the phrase implies, Reborn Kao is about reinforcing our current business with dynamic investments and fortifying our brand strategy, while Another Kao focuses on themes that we have not done, or have not been able to do, in the past.

In order to deliver the dual-track approach, we have reset our innovation agenda and mobilized the team to ensure new business investments are highly leveraged against our current business competencies, capabilities and technologies. Optimizing synergies between our existing and new businesses to deliver maximum value is core to how we will lead the way forward. Our goal in this is stated in our Commitment to the Future.

Reborn Kao: Major Reforms in Manufacturing and Marketing

The immediate priority to deliver on the Reborn Kao plan is to implement a series of significant manufacturing and marketing reforms.

We will be making dynamic investments in category leading brands and deliver a dramatic shift in our approach to marketing. Marketing investment will be focused on creating strong ties with consumers and accelerate our rapid shift to

loyalty and retention based relationship marketing. We need to have distinctive products that offer functional value to do this. Also important is offering value that touches consumers on an emotional level and has the power to make consumers want to tell other people about the products. New digital experiences, technology advancements and opportunities to maximize personalization are all key to success.



Integrated into these priorities is the advancement of our ESG agenda, we will accelerate our proposals for ESG-driven *Yoki-Monozukuri*, which we define as “maximum value with minimum waste,” to contribute to a circular society. In products designed for the future, it is important that the various types of value they provide to consumers is long-lasting and strongly satisfying while minimizing the energy, substances and labor required to make them. Next, regarding globalization, we will distinguish ourselves

in the global marketplace and avoid fierce competition of product and price, by ensuring we offer “only one” value to our customers. To compliment this, we are moving toward local production and consumption model, grounded in local value, cost performance and manufacturing.

In the Americas, Europe, the Middle East and Africa (AEMEA), our goal is to become the No. 1 brand in the target categories. In the salon hair color field for example, we have strengthened our global presence and success through distinctive and innovative product. In the body skin care field in AEMEA, we are rolling out products that set us apart from other companies.

In the Chemical business, we already enjoy market leadership driven by unique and high performing products. Our focus is on driving forward and integrating ESG-based innovation to distinguish them even further.

Reborn Kao: Significant Reform for High-Profit Businesses

We are also aiming to make a major pivot to a high-profit business. To clarify our investment policy, we separated our business into three domains last year: Stable Earnings, Growth Drivers and Business Transformation. Stable Earnings relies on high margin category leading businesses where we lead in the industry. In Growth Drivers domain, we will accelerate our global growth through targeted investment and Business Transformation efforts will be focused on delivering increased profitability. We are currently pressing ahead with these reforms. In addition to these efforts will be a focus on purpose-driven brand management in our Consumer Products Business. We will design our distinctive brands to create synergies built around their brand purpose and leverage the authenticity and performance of our portfolio of brands to deliver growth. Last year, we saw growth in brands and business that

digitized early. These were primarily in cosmetics and men’s facial cleanser in Japan, professional hair care in Europe, and body skin care in the Americas. We delivered new innovation in disposable baby diapers in China to positively support newborn development.

These diapers are resistant to swelling after urination, so they do not interfere with babies’ walking gait. Also, parents can use smartphones to monitor the development of their baby’s earliest walking movements, and we launched a service that provides advice based on the stage of a baby’s individual development. The diapers have been positively received in the market, and we are proceeding with local production. These are some of the ways in which we have moved the “yardstick” used to measure value with consumers, and evidence that we are increasing the value experienced by customers.

Another Kao: Create New Businesses

Specific measures for Another Kao, which aims to create new business models, commenced in 2022. This business model mobilizes our deep expertise in monitoring technologies and allows us to deliver precise and customizable solutions. Generally speaking, for issues where the cause is clear, precise and effective product design is possible. There are many cases, however, where the cause is unclear, and often the solutions that are provided then need to be highly generalized. This then results in a sharp drop in the value that is experienced. Kao is well advanced in developing platforms to analyze causal relationships from easily obtainable data such as with

sebum RNA monitoring and walking motion monitoring. This enables us to offer more precise and targeted solutions. These monitoring solutions are not done solely by Kao; anyone can use them and improve their applicability. We have also started utilization of the Virtual Human Body Generative Model this year, which can be versatily applied to meet needs by estimating correlations even when causes are not identified. This model is able to utilize wide-ranging attributes that by their nature have been difficult to connect as input data, and is able to return estimated values for a number of requests. It can thus be utilized in cooperation with partners in many different industries and fields, and

this year we have started a large number of collaborative projects. Preferred Networks, Inc., a company with some of the most advanced deep-learning technology in the world, was involved in the development of this model, which utilizes our unique data set.

We are also deploying solutions in industrial fields based

on Precision Monitoring in areas such as adjuvants (agriculture) and infrastructure (roads). These are a few of the advancements we are making to advance new business development in alignment with our ESG-driven *Yoki-Monozukuri* commitment.

People's Energy is Our Driving Force

The Kao Way, our Corporate Philosophy, was created in 2004 and established part of our company culture and core DNA in order to spread our valued spirit passed down from our predecessors to all employees. Employees have put the Kao Way into practice as the cornerstone and the starting point of everything we do.

In the midst of transformation, it is vital that our employees question the status quo. As part of this, in 2021 we revised three points in our philosophy that we need to achieve going forward. The first is establishing our new Mission of “As one, we create a Kirei life for all—providing care and enrichment for the life of all people and the planet.” Then we updated

our Vision “To be closest to the individual and beyond their expectation,” and finally we added “We act with courage” to our Principles.

The updated Kao Way was developed with input and ideas from employees all around the world. Our commitment to our core values of Integrity as the only choice, *Yoki-Monozukuri* in plan and action, and Innovation for today and tomorrow have not changed. In parallel with these updates, we implemented an OKR (Objectives and Key Results) system. We are already experiencing positive changes as employees are encouraged to set higher and more challenging goals.

Evolution of the Future-Oriented Kao Way



In Conclusion

As we declared last year, we will transform our manufacturing from an approach driven by consumption to one where resources are circulated. This represents a transition from a linear economic model based on units and volumes to a circular economy based on quality and human connections. It is a more just and sustainable business model for all, poised for success as we remain focused on

serving fundamental human needs while solving for complex environmental and social problems. We expect to enact business reforms in FY2022 amid the challenging global business environment. We view the current turbulence as an opportunity to reform and, are fully committed to transform rapidly into the new, stronger and more agile Kao.

Executive Leadership Message

Our Resolve to Reform and the Management evolution from our Senior Executive Vice Presidents and Managing Executive Officers



Toshiaki Takeuchi

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

As the COVID-19 pandemic continues, the environment has changed dramatically, including the transformation of consumers' values and the acceleration of the digital shift. This has created a situation where our nationwide standardized sales activities are no longer adequate. We will develop our efforts with retailers to further promote one-to-one marketing to each individual and **establish a co-creation relationship to build loyalty and strong brands.**



Tomoharu Matsuda

Senior Managing Executive Officer
President, Consumer Products, Global; Responsible
for Kao Professional Services Co., Ltd.

Due to the COVID-19 pandemic and the acceleration of digitalization, our marketing focus has shifted from "increasing sell-in" with mass advertising and mass in-store display to building stronger bonds with consumers – "customer retention." To deliver this, **we are reviewing our brand management approach and investing more heavily in digital marketing activities to build stronger engagement and bonds with consumers.** We are confident that this shift will meet the expectations of stakeholders.



David J. Muenz

Managing Executive Officer
Senior Vice President, ESG, Global

The level of transformation that our businesses need to undergo from the perspectives of climate change, biodiversity, and human rights is profound and fundamental. To drive business growth leveraging our ESG strategy, we will establish new mechanisms and structures to harness the power of our people, brands, and technologies. To catalyze these actions, we will employ actionable ESG goals/targets aimed at **minimizing negative impact to the environment and society, whilst maximizing consumer value** that will drive sustainable business growth and create a more sustainable world.



Masakazu Negoro

Managing Executive Officer
Responsible for Management Strategy, Global;
Senior Vice President, Procurement, Global;
Responsible for Accounting and Finance

Economic hardships caused by hikes in raw material prices will make us stronger. Due to the impact of the COVID-19 pandemic and the Ukraine crisis, raw material prices continue to rise in an unprecedented manner. We need to face this issue head on, and challenge ourselves to do things that we have not been able to do before. Kao has been conducting TCR* activities and adopting mutually-beneficial relationship across our supply chain. An ESG-driven mindset of minimizing waste will unquestionably make us stronger.



Yasushi Wada

Managing Executive Officer
Senior Vice President, Product Quality
Management, Global; Responsible for Legal and
Governance

Uesugi Yozan, a regional ruler in Edo-period Japan famous for his skilled administration, said: "Where there is a will, there is a way. It will not be done, unless you do it." That is the approach we must take today. It pushes us **to take on difficulties and challenges with strength of conviction to get things done.** We must be united in our determination not to be too attached to our past success, and seize the opportunity to challenge ourselves to build *Yoki-Monozukuri* from the ground up.



Osamu Tabata

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

With the rapid changes in consumer behavior and in retailing, we need to thoroughly overhaul the traditional supply chain oriented toward efficient large-volume production, which has been one of Kao's key areas of expertise. We will transform all of our supply chain processes from a sustainability and end-to-end perspective and build new competitive advantage. **We will utilize AI for demand forecasting and automate planning, and make use of robots and other advanced technology** to realize new production and logistics sites.

Courage to Take on Challenge



Yoshihiro Murakami

Managing Executive Officer
President, Consumer Products - Cosmetics
Business, Global; Senior Vice President
Consumer Products - DX Co-creation, Global

The keys to transform the Cosmetics Business are **an acceleration of digital transformation (DX) and Precision Skincare**. Our objectives of DX are to shift from a manufacturer to a UX-creating company, and to build a platform for direct communication with consumers. Precision Skincare will enable personalized product development that is bundled with unique monitoring technology. Using DX and Precision Skincare to give the business its own unique character, **we will drive building a strong brand that supports diverse kinds of beauty**.



Toru Nishiguchi

Managing Executive Officer
President, Consumer Products, Asia
Responsible for Consumer Products - Merries
Business

We are focused on delivering a highly motivated workforce with a global mindset. To deliver this, fundamental reform is needed for our human capital system by creating more opportunities for overseas postings. By utilizing OKRs and 0★1 Kao, we will be better equipped to enable cross-country personnel exchanges. In business areas that are experiencing challenges, such as diapers, we are committed to learn from a wider source, **put our heads together to share ideas and implement a strategy to provide Kao's unique value**.



Hideaki Kubo

Managing Executive Officer
Senior Vice President, Research and Development,
Global

With changes in society such as the impact of the COVID-19 pandemic, environmental issues, population aging and growing diversification, people's attitudes are changing at an unprecedented speed. Kao will be using these changes as a unique opportunity to leverage its strengths. We will promote **target-oriented Yoki-Monozukuri by maximizing the use of core technologies** and will also take on the challenge of **creating new businesses that can solve critical issues**, which will be indispensable to the future.



Satoru Tanaka

Managing Executive Officer
Senior Vice President, Corporate Strategy, Global
President, Consumer Products, Americas and
EMEA

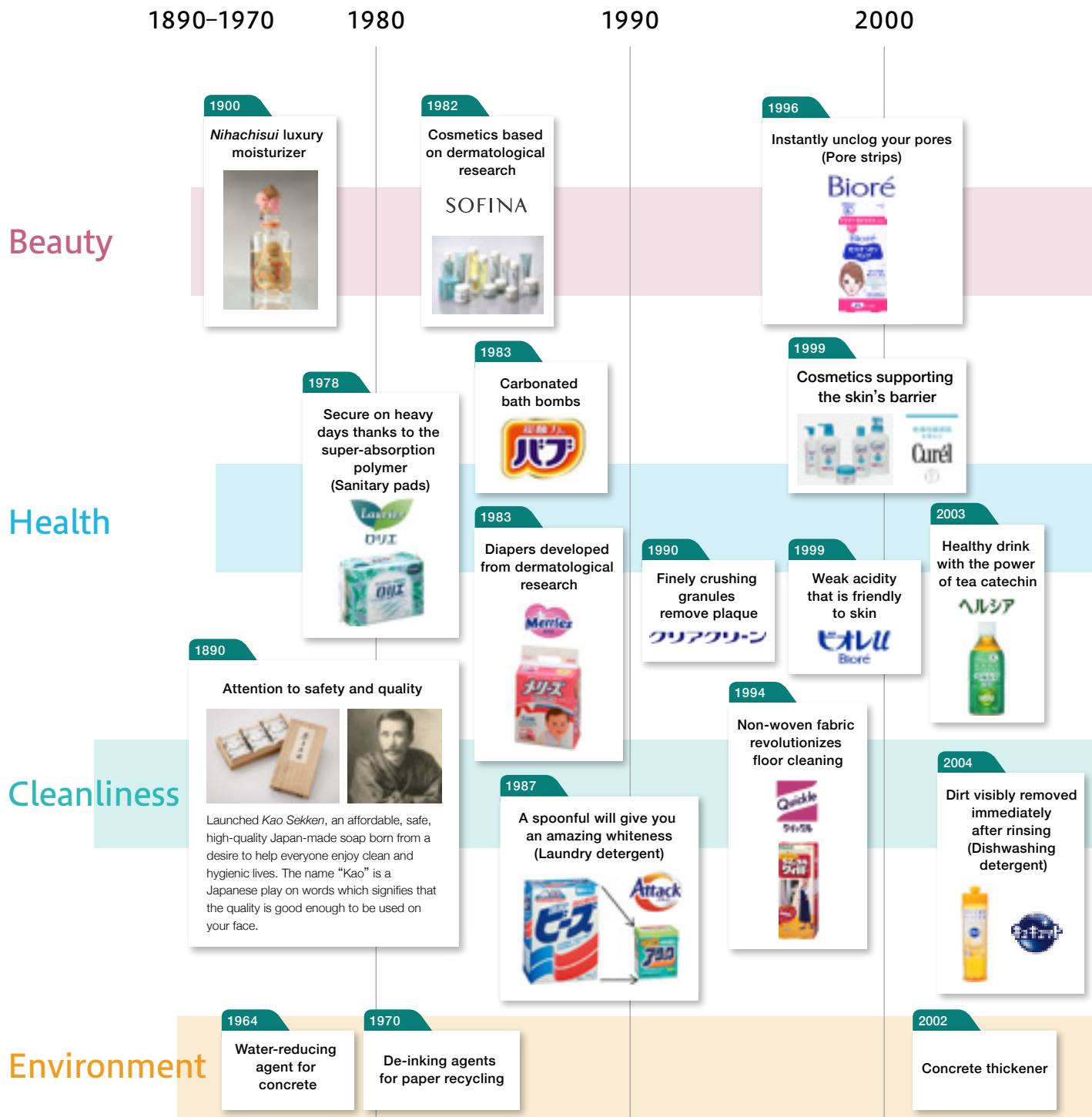
We want to secure Kao's forward growth trajectory by moving from a business- and area-based incremental strategy to **a backcasting-based strategy that clarifies the roles and priority order of product categories and countries**. To achieve this, reformation is essential, for example in terms of investment priority, collaborative execution rather than silos, strategic M&A and strategic corporate PR and IR, with ESG at the core. It is also very important to establish a safe and secure workplace so that all employees can continue to challenge themselves.

* TCR : Total Cost Reduction

Our History

A Legacy of Building Knowledge

Kao's history is one of integration and creation. We expanded our business domains into Cleanliness, Beauty, Health, Environment, and Life to meet the needs of consumers and society. By flexibly integrating these domains, we have created new markets and value.



and Creating Unique Value

Life



Tackling Social Issues to Realize the Future Our Children Envision

Environmental Issues



Climate change is expanding, accelerating and worsening. The issues of waste, environmental pollution and deforestation brought about by mass production, mass consumption and mass disposal are some of the issues that Kao addresses. This not only requires the effective usage of resources and reducing the environmental impact but also the ability to newly regenerate resources.

Population Aging



In a rapidly aging society, the number of people with illnesses is increasing and medical and nursing care costs are putting a strain on the economy. A system in which everyone can more effectively manage their own health is necessary for balancing the extension of healthy life expectancy and the sustainability of national finances.

Pandemics



Climate change and the increased global movement of people have made various infectious diseases caused by viruses, bacteria and parasites a familiar threat. Effective prevention of communicable diseases in everyday life is one of the issues we work on.

Challenges Associated with Diversification



The dramatic increase of products and information addressing inappropriate responses to diversification make it difficult for consumers to make the right choices, encourages waste and increases unsustainable disposal. A system is required that balances diverse product needs while reducing environmental impact.



Litter-Eating Whale

My dream is to become a scientist and invent a litter disposal station. It would swim around like a real whale in the ocean and convert marine litter into fuel for itself as well as recyclable resources.

Yueheng Hu (8)



Stitching the Earth

The Earth is an imperfect place. There are many problems. Now is the time for everyone to help restore our one and only Earth for future generations.

Sophie Naysa Gunawan (10)



I Have a Dream

I have a dream: We join together, ride on Bird of Peace and fly to different places to sow magical seeds, restoring the beauty of original forest on our Earth.

Hoi Ching Pang (6)



Change the World!

This is a warning that shows we have to change. This picture shows how much some people want to change the world.

Alexandra Teodorescu (12)

Mid-term Plan 2025 (K25) and Value

K25 is an important milestone for delivering our purpose to realize a Kirei World in which all life lives in harmony. Through K25, we will transform our business model and evolve into a company that protects future lives. Furthermore, we will accelerate our value creation and profitable development in cooperation with our many partners tackling the challenges of social issues.

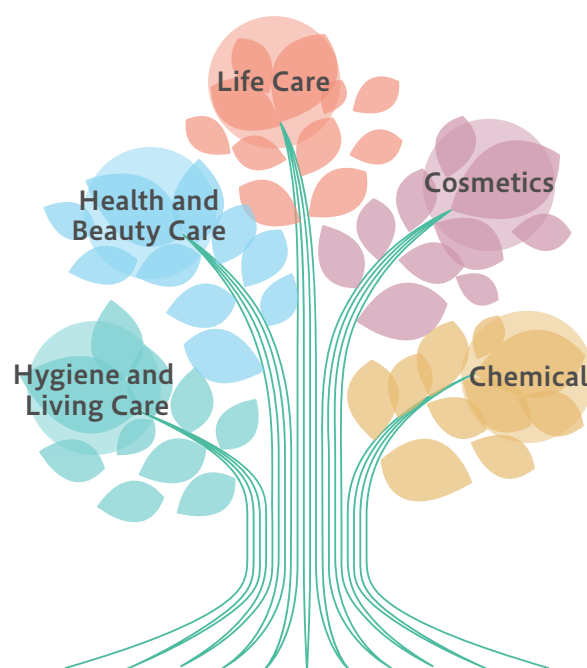
K25 Vision

Protecting future lives
Sustainability as the only path

Input^{*1}

Human Capital	Number of employees ————— 33,507 Management tool for activating personal growth: OKRs 0★1 Kao
Relationship Capital	Products sold over 100 countries/regions Customers Partners for business and social contribution Academia
Financial Capital	Net sales ————— 1,418.8 billion yen Operating income ————— 143.5 billion yen EVA® (Economic Value Added) — 45.1 billion yen
Intellectual Capital	Number of brands ————— 81 Consumer Products and Cosmetics Number of patents held ————— 17,356 R&D expenses ————— 59.0 billion yen
Manufacturing Capital	Production sites ————— 37 locations Capital investment ————— 87.5 billion yen
Natural Capital	Energy consumption ————— 18.5 PJ Water use ————— 17.3 million m ³ Plastic packaging usage — 106 thousand tons CO ₂ emissions across the product lifecycle — 11,398 thousand tons

Invest to Grow



Strategic Approach

- ◆ Become an essential company in a sustainable world
- ◆ Transform to build robust business through investment
 - Revitalize of existing businesses (Reborn Kao)
 - Create of new businesses (Another Kao)
- ◆ Maximize the power and potential of employees

Creation Model

Our Purpose

To realize a Kirei World in which
all life lives in harmony

Output^{*2}

- A team that embodies the Kao Way
- Having every team member take on big challenges and collaborate
- A diverse team with high levels of professional expertise that performs at full potential
- Realization of efficient and flexible work styles
- Increasing employee satisfaction

- Generating synergies with the power of our integrated approach
- Maintaining strong bonds with Kao fans
- Finding new partners and growing further with them
- Meeting the expectations of rating agencies and evaluation bodies

	FY2025 Target	FY2030 Target
Net sales:	1.8 trillion yen	2.5 trillion yen
Operating income:	250 billion yen	400 billion yen
EVA®:	100 billion yen	

- Purpose-driven brands with large numbers of fans
- Generating innovation by using the right intellectual property in a timely and appropriate manner
- Improving the efficiency of research and business activities through the utilization of intellectual property
- Gaining new insights through M&A activities

- Ensuring security, safety and environmental awareness
- Efficient small-lot production in terms of both resources and costs
- Strengthening resilience to large-scale natural disasters

- Energy consumption (per unit of sales): 1% reduction annually
- Water use (per unit of sales): 45% reduction (compared to 2005)
- Quantity of plastics used in packaging: Will peak and begin to decline by 2030
- CO₂ emissions across the product lifecycle: 22% reduction by 2030 (compared to 2017)

Commitment to the Future



Regenerative Lifestyles

Plan for and enable sustainable consumption and regeneration.



Toward Carbon Negative

Move beyond CO₂ reduction and unlock CO₂ recycling.



Zero Waste

Waste nothing. Period.



Precision Life Care

Every person is unique.
Our solutions will be too.



Leave No One Behind

Innovation can be for everyone.
We won't stop.

*1 As of December 31, 2021

*2 Target of December 31, 2025, unless otherwise noted

Chapter 2

Our Strategy

Transformation Always Rises from Challenges

Become an Essential Company in a Sustainable World

What is an Essential Presence in a Sustainable World?

Adopted by all participating countries in the September 2015 United Nations Summit, the Sustainable Development Goals (SDGs) is an international framework consisting of 17 goals and 169 targets aiming to create a sustainable and better world by 2030. The goals and targets are wideranging and interconnected. They are complex and cannot be solved if the focus is on only one target.

Kao believes that, by understanding relevance among targets and designing the appropriate business model, we can solve multiple issues simultaneously. This is the basic approach to our target business model, a concept that will be key in contributing to the creation of a sustainable world, enhancing corporate value.

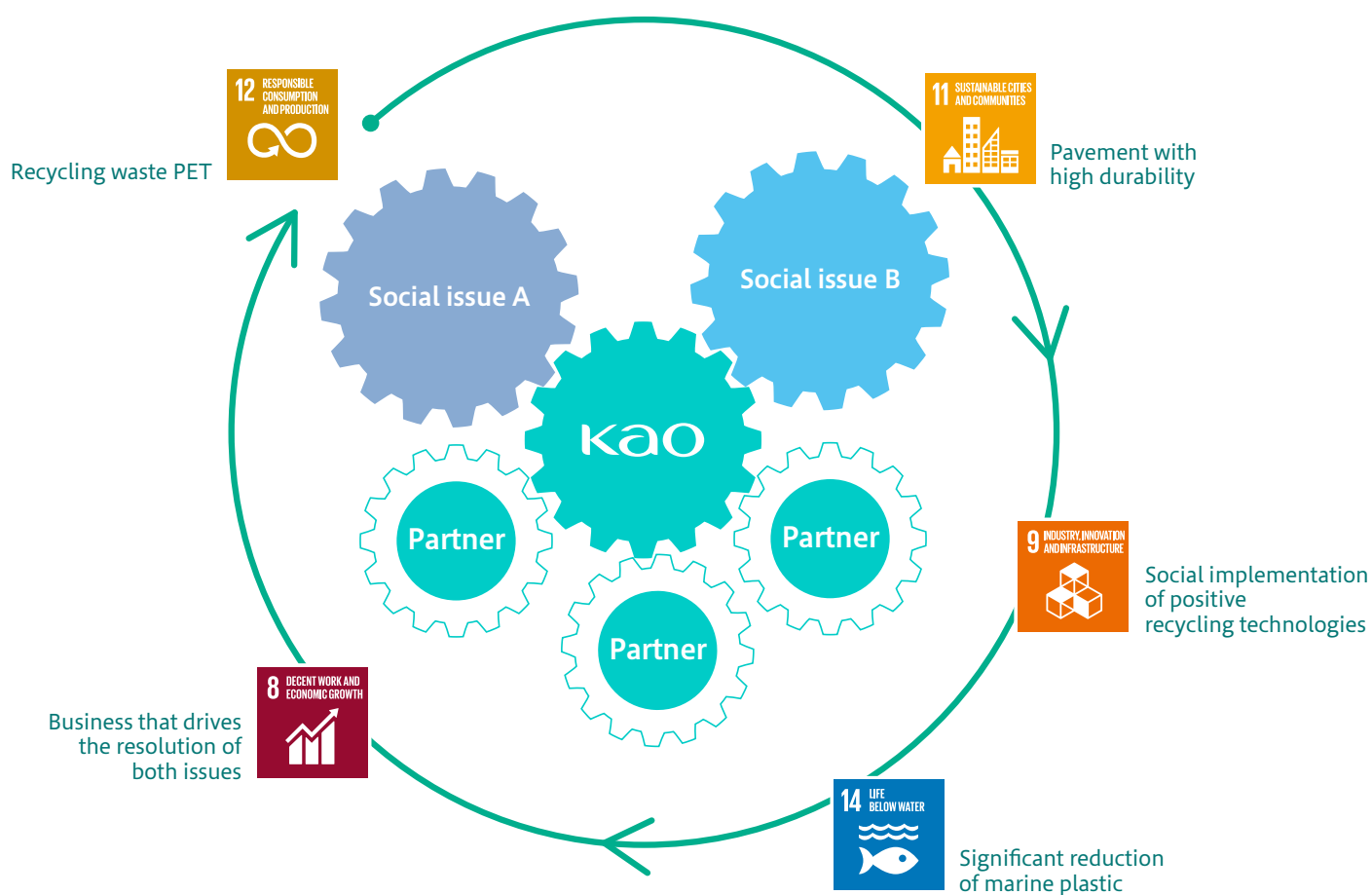
**There are many social issues.
And they are all deeply interconnected.**



Kao's Idea of a Continuously Developing and Circulating World

Business models that continue to develop by linking solutions to multiple social issues and attracting many partners to participate in them

Case example: reinventing road construction utilizing waste PET



Reborn Kao

Revitalize Existing Businesses

Transform to Build Robust Business through Investment

In order to achieve management stability and strong growth amid the rapid changes seen around the world, Kao believes that we must not just focus on expanding our existing businesses, but create new businesses that will significantly transform our business models. K25 promotes the transformation of our existing businesses (Reborn Kao) and the creation of new businesses that are different from Kao's conventional styles (Another Kao), transforming into businesses that get stronger with investment.

Reborn

Maintaining the status quo is
the same as retreating.
Transformation makes us stronger.

Another

Creating new businesses
is a difficult challenge now,
but will be essential in the future.

Significant Reform for High-Profit Businesses

Kao positions Economic Value Added (EVA[®]) as a principal management metric that reflects corporate value. There are three major reasons for the decrease in EVA from FY2018 to FY2021. First was the delay in breaking away from conventional mass marketing in Japan, which is Kao's key market. Fundamentally, this has led to the decline of our competitiveness in the market. As our competitive superiority declined, it became harder to reflect raw material cost increases in sales pricing. Second was the delay in responding to the loss of inbound demand for baby diapers, as a result of restrictions on the movement of people during the COVID-19 pandemic. Third was the cosmetics market

shrinking due to the COVID-19, especially in makeup, which is Kao's strength.

To enhance corporate value and EVA, Kao will promote significant reform for high-profit businesses and break away from mass marketing in existing businesses. More specifically, we will concentrate investment in core high-profit businesses, nurture purpose-driven brands, and pursue one-of-a-kind value propositions. With EVA bottoming out in FY2021, we will improve EVA from FY2023 onward through these initiatives to maximize profit (from an income statement perspective) with minimum assets (improve asset efficiency from a balance sheet perspective).

Approach for Reform for High-Profit Businesses:

- **Concentrated investment in high-profit core businesses (decisive investment)**
- **Purpose-driven brand development (emphasis on loyalty)**
- **Pursue one-of-a-kind value propositions (non-competitive areas)**

Concentrated Investment in Growth Businesses

For existing businesses, we will actively invest in businesses that are expected to grow and divest from businesses for which growth cannot be expected. We have clarified the role of each business in our growth strategy by categorizing the asset allocation policy into three groups. By concentrating

investment in Growth Drivers, consisting of cosmetics, chemicals, skin care, and commercial-use hygiene products, we aim to transform existing businesses quickly into high-profit core businesses.

Steady Start of Transformation to Build Robust Business through Investment

Stable Earnings

Make investments appropriate for a high-profit core business and emphasize contribution to profit

- **Fabric care**
- **Home care**
- **Personal health**

Growth Drivers

Achieve growth in sales and profit by investing in growth strategies

- **Cosmetics**
- **Chemical**
- **Skin care**
- **Commercial-use hygiene products**

Business Transformation

Effectively realize profit through carefully selected investments aimed at one-of-a-kind value

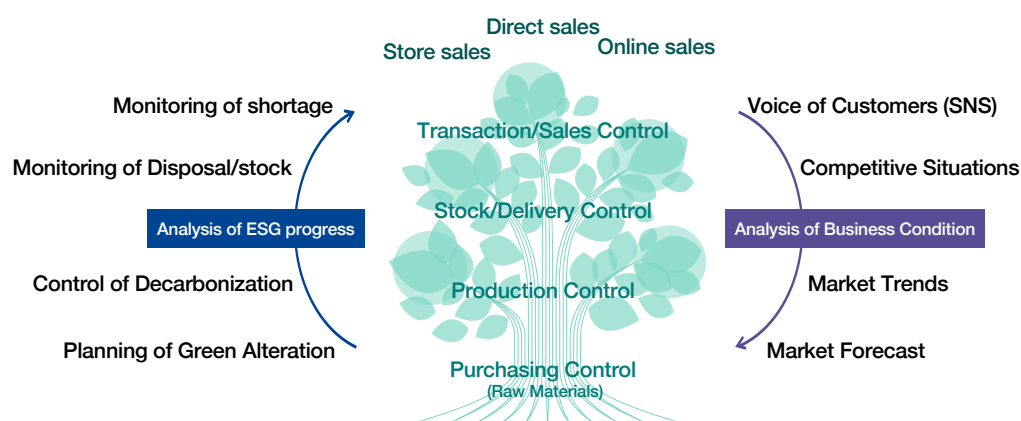
- **Sanitary products**
- **Hair care**
- **Products for hair salons**
- **Health drinks**

Data-Driven Business Management

All of Kao businesses have moved to a data-controlled approach. We will plan procurement to sales meticulously through simulations based on analysis of business situations, including product reception, competitors' situations, and market conditions. Meanwhile, we will enhance the shift to green raw materials, decarbonization management, and monitoring of waste, inventory and stockout. We will also monitor the business shift to make sure it will be ideal for the future, gauging the entire

business using ESG progress analyses.

To respond to dynamically changing sales channels such as stores, e-commerce, and direct-to-consumer (D2C) sales, we will implement business plans in the most efficient way while analyzing the data from each channel as a whole with AI. By the end of 2023, we aim to transform ourselves to a resilient company that can flexibly respond to business situations and changes in the environment.



Purpose-Driven Brand Development

Serving the most important role as touchpoints between Kao and consumers, our product brands have each set their brand purpose in association with Kao's purpose. We will also clarify

each brand's role in business and market the brands according to the characteristics of each category with strategically allocated investments.

The Toiletries Business Brand Portfolio

	Japan and Asia	AEMEA (the Americas, Europe, the Middle East and Africa)
Category Leading Brand Top-of-mind brand when thinking of the category	13 Brands 	3 Brands
Life Design Brand Brand that stays close to the everyday life of individual fans and offers new lifestyle values	3 Brands 	0 Brands
Niche Segment Brand "Only One" brands specialized for specific needs within categories	12 Brands 	4 Brands

The Cosmetics Business Brand Portfolio

G11: 11 global strategic brands

R8: 8 regional strategic brands deployed mainly in Japan



Value Creation by Business Segment

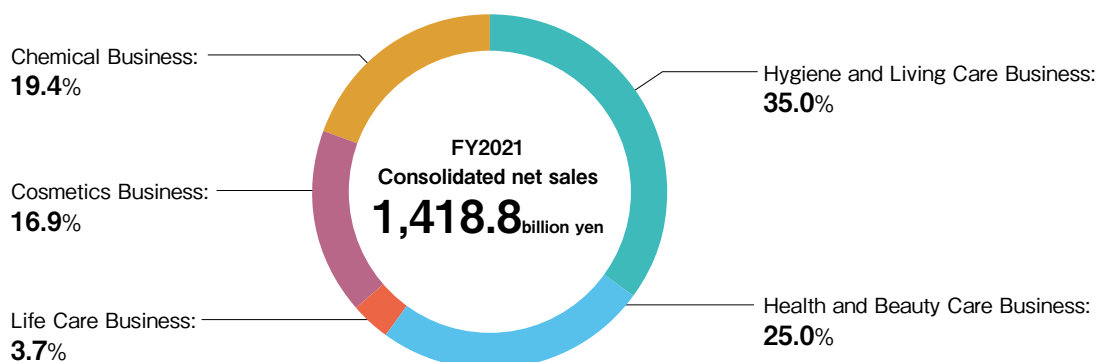
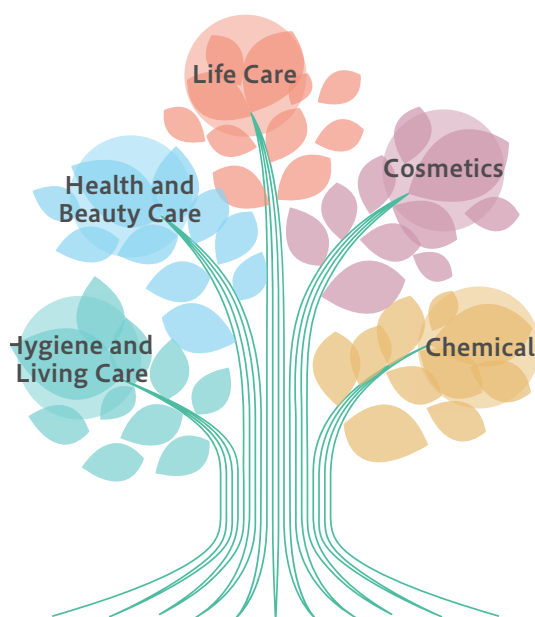
Five Business Segments and Sales Composition

In order to conduct business with a focus on the fundamental value that people seek, Kao restructured its business organization structure in January 2021.


We are promoting value creation by five business segments: the Hygiene and Living Care Business, which contributes to more comfortable lifestyles with support for everyday lives; the Health and Beauty Care Business, which offers care for the entire body to maximize healthy beauty; the Life Care Business, which promotes new business to protect human

lives; the Cosmetics Business which provides “hope” and “Kirei” by staying close to the beauty and individuality of each person; and the Chemical Business, which contributes toward creating the future of industry and a sustainable world by providing innovative products and solutions.

The shares of net sales in FY2021 by business segment were 35.0% for Hygiene and Living Care, 25.0% for Health and Beauty Care, 3.7% for Life Care, 16.9% for Cosmetics and 19.4% for Chemical.



Our Business Segments and Main Products Categories

Hygiene and Living Care Business 	<ul style="list-style-type: none"> ● Laundry detergent ● Fabric treatments ● Kitchen cleaning products ● House cleaning products ● Paper cleaning products ● Sanitary napkins ● Baby diapers 	FY2021 Net sales — 496.8 billion yen Like-for-like growth ^{*1} — (2.8) % Share of net sales — 35.0 % Operating margin — 10.4 %	
Health and Beauty Care Business 	<ul style="list-style-type: none"> ● Skin care products ● Hair care products ● Professional hair care products ● Bath additive ● Oral care products ● Thermo products 	FY2021 Net sales — 354.5 billion yen Like-for-like growth ^{*1} — (4.2) % Share of net sales — 25.0 % Operating margin — 14.0 %	
Life Care Business 	<ul style="list-style-type: none"> ● Commercial-use hygiene products ● Health drinks 	FY2021 Net sales — 53.0 billion yen Like-for-like growth ^{*1} — 1.0 % Share of net sales — 3.7 % Operating margin — 6.8 %	
Cosmetics Business 	<ul style="list-style-type: none"> ● Counseling cosmetics ● Self-selection cosmetics 	FY2021 Net sales — 239.3 billion yen Like-for-like growth ^{*1} — (0.6) % Share of net sales — 16.9 % Operating margin — 3.1 %	
Chemical Business 	<ul style="list-style-type: none"> ● Oleo Chemicals ● Performance Chemicals ● Information Materials 	FY2021 Net sales — 314.3 billion yen ^{*2} Like-for-like growth ^{*1} — 12.9 % Share of net sales ^{*3} — 19.4 % Operating margin — 9.4 %	

^{*1} Excluding the effect of currency translation. Numbers in parentheses are negative.

^{*2} Net sales of the Chemical Business include intersegment transaction

^{*3} Share of net sales is calculated based on sales to customers



Kirei in our interactions and everything our lives touch

Hygiene and Living Care Business

Value Creation

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.

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.

Main Brands



Business Strategies

- We are strengthening our suggested cleaning and disinfecting products for clothing and the home to meet needs of growing hygiene awareness in the wake of the prolonged the COVID-19 pandemic.
- We offer sanitary products for each life stage to consumers in countries in Asia.
- We proactively lead efforts to reduce plastic consumption and the use of chemical substances as well as strengthen our ties with users as leading brands that are essential to everyday life, and create strong brands that are loved globally.
- We build trust with consumers by developing products with a focus on the local needs in Asia and conducting awareness-raising activities, and establish businesses that support the foundation of everyday lives in Asia.

Opportunities

- Increased awareness of environmental issues
- Growing needs for clothing and home hygiene globally
- Advancement of women in society, falling birth rates and aging populations
- Diversification in the allocation of housework responsibilities (Making it easier for anyone)

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 everyday lives

Examples of Value Creation

Products Simple Enough for Anyone to Use

Bath Magiclean Airjet was released in September 2021 and is a next-generation bath cleaner that makes it possible for anyone to easily remove stains without scrubbing by soaking the bath for 30 seconds using the continuous spray mist that can easily spray an even and light coating of mist-like cleaner and the newly developed quick acting dissolving formula. Not only does this allow anyone to effortlessly complete housework, but this product is not physically taxing for senior citizens who feel strained when cleaning baths and for people who have physical disabilities.

Magiclean continues to strive for hygienic home solutions which anyone can live in with peace of mind, while taking into account the trend toward diverse lifestyles and greater diversity in how housework responsibilities are allocated.



Adopt 100% Recycled Plastics Bottles*

In April 2021, we incorporated bottles* using 100% recycled PET (Polyethylene terephthalate) in *Attack ZERO* laundry detergents and *CuCute Dishwashing Foam Spray* bottles. By 2025, we will use recycled PET for all of our household and personal care packaging using PET bottles*.

* Excluding colorants, label film, pumps and caps



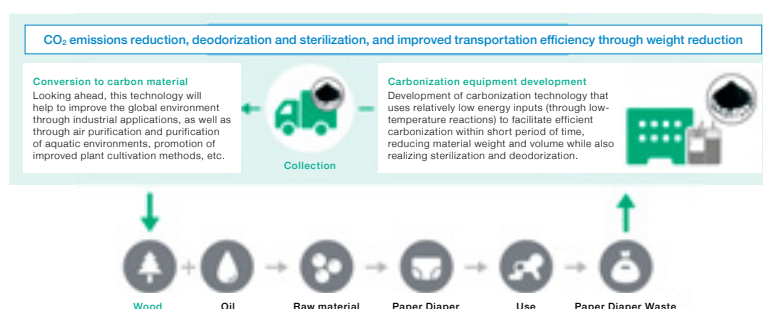
Attack ZERO



CuCute CLEAR Foam Spray

Contribute to Greening and Carbon Fixation for Waste from Disposable Diapers

In collaboration with Kyoto University, we began field testing in Saijo City, Ehime Prefecture to establish a Used Disposable Diaper Carbonization Recycling System. By efficiently converting used disposable diapers to a carbon material using less energy, we will help reduce our environmental impact.





Kirei that makes life shine

Health and Beauty Care Business

Value Creation

Through daily hygiene practices and self-care for physical and mental well-being that all people can maintain without difficulty, we contribute to realizing truly healthy living, where people can express their individuality as they see fit.

Along with protective and preventive measures to safeguard against external factors such as infectious diseases and UV rays, we also offer products and information to boost the immune system and are developing ways to care for environmental stresses and create safety and reassurance in everyday life.

Main Brands



Business Strategies

- We propose solutions covering all aspects of people's needs in various everyday settings.
- We offer products and information in response to increased awareness of healthcare.
- We are strengthening our development of products made in consideration of the environmental and social issues.
- We are strengthening our business development globally through megabrand *Bioré*, brands for hair salons and more.

Opportunities

- Increased awareness of hygiene and health due to the COVID-19 pandemic
- Global expansion of hygiene market
- Increased interest in environmental issues
- Growing needs to improve the quality of life of elderly

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

Examples of Value Creation

Joy of Bathing with Wonderfully Sumptuous Lather

A great effort has gone into the lathering qualities of our product to ensure gentler and more thorough washing. The new pump dispenser dispenses 150% more lather than before* with one push. From the body wash, face wash, shampoo, to conditioner, the special lather makes the bathing experience especially enjoyable.

* Compared to Kao's conventional face washes



Bioré The Face Foam Face Washing

Merit The Mild Foaming Shampoo & Conditioner

A New Routine Proposed with Eco-Friendly Film Packaging

We are working to develop film type packaging with improved convenience and hygiene that also reduces plastic usage. We're developing the Raku-raku Switch which extracts liquid with a light touch, and the Air-In Film Bottle outside Japan in places unaccustomed to using refill packs and encouraging the wider usage of products with film type packaging.



Raku-raku Switch



Air-In Film Bottle

Yasumi Yasumi: A Crossover Project Involving Different Product Lines to Help People Relax and Refresh

To address the various concerns and issues that modern people have with taking a break (or as it's called in Japanese, *Yasumi*) as their work styles continue to diversify, we started a project advocating for frequent and easy breaks with *MegRhythm Steam Eye Mask* and *Bub Medi-cure*. Inside Kao Group, we also recommend the *Yasumi Yasumi Work Style* to help maintain employees' health.





Supporting health so people can lead happy and fulfilling lives

Life Care Business

Value Creation

In view of the nature of issues consumers face, we take steps to realize self-cures and self-care that fits consumers' lifestyles and can be continued without special effort.

By bringing together mental and physical monitoring technologies and AI, we provide solutions that accurately suit the actual and potential needs of each person.

We offer solutions catering to professional hygiene needs at commercial and public facilities such as restaurants, accommodations and medical and nursing care centers, thereby contributing to people's safety.

Main Brands

ヘルシア

KPS Kao Professional Service

V-SAVE

ハジメスキッシュ EX

Smash

セーフキブ

Business Strategies

- We are transforming our business domain from a health drink business to a lifestyle-related diseases prevention business providing the personalized and optimized solutions based on physiological data.
- We are expanding our business domain to environmental sanitation to prevent the spread of infectious diseases, the treatment of skin diseases and the prevention of geriatric syndrome arising with super-aged societies.
- Through cross-collaboration with like-minded companies, research institutions, public-interest groups, local governments and others, we engage in accelerated co-creation to produce customer value.
- To comprehensively resolve hygiene issues at professional workplaces, we offer total solutions that combine diverse technologies and cover everything from design to operations and maintenance.

Opportunities

- Market expansion for improving personal health (population aging, lifestyle-related diseases, geriatric syndrome)
- Advances in digital technologies
- Commercial-use hygiene product market expansion

Strengths

- Development technologies built up in our existing businesses including metabolic syndrome care and skin care technologies
- Unique Precision Monitoring technology built up through *Essential Research*
- Data-driven marketing using the state-of-the-art technologies

Examples of Value Creation

Healthya: Creating Highly Loyal Customers through e-Commerce

The official *Healthya* account on LINE offers “Monitoring Health” to record and manage one’s health. The goal here is to make healthy behavior part of our customer’s daily - particularly as health awareness has risen due to the COVID-19. It allows them to easily check their visceral fat level, blood pressure, and the number of daily steps walked. A collaboration with Amazon has also commenced to encourage people to buy into the *Healthya* Series.

◆ Label-Less Bottles

As part of our efforts to reduce plastic in packaging, we launched a label-less bottle for *Healthya Green Tea* sold in cases at Amazon and other online shopping sites. This avoids the hassle of peeling off labels to dispose of them separately and contributes to the recycling of used packaging.



“Flying with the Power of Kirei on Our Wings.”

Kao Supports Japan Airline’s Measures against Infectious Diseases

Kao supports the JAL FlySafe initiative, a set of meticulous measures by Japan Air Lines (JAL) to prevent infectious diseases that are enforced at airports and inside airplanes. As part of the initiative, Kao supervised the cleaning manual, used Kao’s monitoring technologies to turn the level of hygiene at airports and inside airplanes into numbers, and gave advice on the areas that could be improved based on the results.





Celebration of Individuality

Cosmetics Business

Value Creation

Through the outstandingly distinctive identity of each of our brands, we are committed to the “beauty” and “individuality” of each person. We deliver hope and Kirei with solid science and our abundant sense.

Through beauty, hope and Kirei, we contribute to the realization of a “joyful” lifestyle culture and a society in which fulfilling lives are possible for all.

Main Brands

**Kao
Beauty
Brands**

SENSAI

KANEBO

SUQQU

est

R M K

MOLTON
BROWN
LONDON

ath
le
tis

freeplus

KATE
TOKYO

Curél

SOFINA
ip

Business Strategies

- Acceleration of Stronger Branding: beautify brands based on purpose, focus investments on 11 global strategic brands and 8 regional strategic brands deployed mainly in Japan and optimize the brand portfolio.
- ESG-driven product developments/Enhancing business management: provide new value significant to society.
- Expansion of e-commerce business through DX: shift to retention business model and strengthen engagement with customers.
- Acceleration of globalization: implement new strategic “production for local consumption” for customers in China and strive dynamic growth in European market.
- Continuous implementation of structure reform: shift to solid business structure including reorganization of the makeup business and new working practices for beauty advisors/counselors.

Opportunities

- Delivering new value with SDGs perspective
- Increased makeup behavior and growing diverse needs for beauty arising from new lifestyle habits
- Mid- to long-term global market expansion and business opportunities in new potential markets
- New purchasing experiences and customer touchpoints that are made possible with advances in digital technologies

Strengths

- Social reliability and comprehensive/cross-asset utilization as Kao Group
- Integration of in-depth knowledge for skin based on evidence (Science) and emotional value (Sense)
- Distinctive brands for individuality
- Unique advanced technology (Precision Skincare, Virtual Human Body Generative Model)

Examples of Value Creation

KATE: Maximizing the Value of Experience by Creating UX

KATE has been conducting an initiative to strengthen its bond with customers by offering new UX that combines products with unique digital communication, to make customers enjoy makeup more. In 2021, KATE won the top market share in total makeup markets in Japan, obtaining top market shares in four main makeup categories^{*1}. As an initiative creating UX, its official LINE account “MAKEUP LAB.” offers a makeup method where users scan their face using a smartphone to see not just makeup that suits each person but the look they want. In spring 2022, the brand launched “KATE 360° FACE,” shopping content that allows consumers to purchase the items they want quickly.

^{*1} Survey by Kao



ALLIE: Sustainable UV

In Spring 2022, ALLIE completely revamped “Think Sustainability, Be Beautiful” with a concept incorporating the desire for people to keep the world and themselves beautiful. Newly launched ALLIE CHRONO BEAUTY line adopts Beach Friendly formula which is designed to conform to the regulations enacted in some countries, regions and beaches^{*2}. The outer packaging of this product utilizes FSC-certified paper and reduces the plastic used. We continue to implement activities that will lead to environmental conservation such as using biomass material in parts of our packaging.

^{*2} The regulations are subject to change.



TWANY: Femtech^{*3} Initiatives

TWANY values the provision of beauty that lasts a lifetime, staying attuned to users' skin types, based on their “rhythm of beauty” over each day, a month, a year, and entire life. In March 2021, the brand started a collaboration and activities for women in the Femtech area with “LunaLuna” (MTI Ltd.), a health information service provider for women with one of the largest user bases in Japan.

^{*3} Femtech is a coinage formed from “Female” and “Technology.”





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

Chemical Business

Value Creation

We strive for solutions to environmental and social issues co-creation. That is, we combine our strengths with the strengths of our customers and partners to create new value in the industry and impact society.

We contribute to initiatives for customers, industries and society to make a shift toward decarbonization and a circular economy through enhanced sustainable materials and new eco-solutions.

Business Domain, Leading Products, Main Target Industry

Oleo Chemicals

Leading Products

- Oleochemicals
- Fat and oil derivatives
- Surfactants
- Fragrance



Main Target Industry

- Cosmetics
- Fragrance
- Household and personal care products
- Food
- Agriculture



Performance Chemicals

Leading Products

- Water-reducing admixture for concrete
- Casting sand binders
- Plastics additives
- Process chemicals for various industries



Main Target Industry

- Roads/Civil Engineering/Construction
- Metal/Casting
- Resources/Energy
- Plastics/Rubber/Tires
- Paint/Ink



Information Materials

Leading Products

- Toners/Toner binders
- Inkjet ink colorants, ink
- Fine polishing agents and cleaner for HD
- Materials and process chemicals for semiconductor

Main Target Industry

- Copiers
- Industrial and commercial printing
- Electronic devices
- Semiconductors/Electronics



Business Strategies

- Strengthen growth foundation and accelerate business expansion into new areas
- Actively develop solutions and materials with high environmental value and social value
- Strengthen and accelerate business development through M&A and external collaboration and cooperation
- Expand business in major markets including Europe, the United States and China and accelerate global expansion to create a business foundation in emerging countries
- Innovate business by actively adopting digital technologies and enhance customer interactions and communication

Opportunities

- Expanding social expectations for hygiene
- Growing needs for environmental responsiveness and decarbonization
- Increased concern about food shortages
- Aging infrastructure in developed countries and economic development in emerging countries
- More advanced digital technologies and their expanded use

Strengths

- Original, distinctive product portfolio: Oleo Chemicals, Performance Chemicals, Information Materials
- Ability to offer business solutions for a wide range of industrial fields
- Synergies with the Consumer Products Business
- Business foundation that enables global growth

Introduction of Chemical Products Contributing to Resolving Environmental and Social Issues

Development of Special Fragrance to Solve Garbage Trucks' Odor Problem

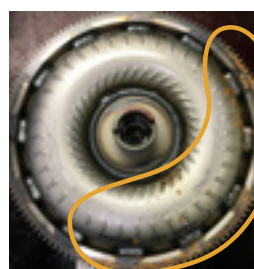
To address the unpleasant odors that arise in garbage collection and to also improve working environments in garbage truck operation sites and for truck operators, we developed a specialized fragrance from our years of experience in perfumery. The fragrance contributes to solving odor-related issues in various situations, including at collection sites, the lingering odor during the driving of garbage collection trucks, and the bad odors that taint operators' uniforms.



Development of *STAY BRIGHT*, New Rustproofing Metal Component Cleaner

STAY BRIGHT cleans metal surfaces and gives them a rust-proof coating, eliminating the need for individual packaging for rust prevention. It also cleans well even at low temperatures, saving energy during cleaning. Being a metal component cleaner that simultaneously cleans and provides a rust-proof finish, *STAY BRIGHT* contributes to saving cost and reducing carbon emissions.

CO₂ emissions: 60% reduction (Kao's evaluation data)



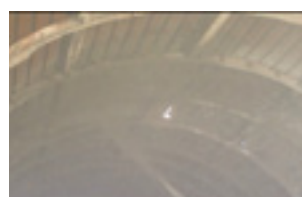
Cleaning with conventional products



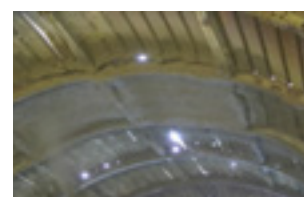
Cleaning with *STAY BRIGHT*

Development of Dust Reducing Agent to Help Reduce Risks of Pneumoconiosis at Construction Sites

VISCO TOP UT is a concrete thickener that significantly reduces dust from concrete sprayed on walls during the construction of tunnels. It markedly improves working environments for the construction of tunnels and plays part in reducing the risk of dust-induced pneumoconiosis, which has been an issue for many years.



Without using *VISCO TOP UT*



Using *VISCO TOP UT*

Dust generation: 70% reduction (Kao's evaluation data)



Business Leader Roundtable

Business Reforms

Natsumi Hotta

Kotaro Nuriya

Akira Shimotoyodome

Masahiro Katayose

Karen B. Frank

Dominic M. Pratt



What changes is Kao facing in its business?

Hotta: In the Hygiene and Living Care Business, we have seen big changes in awareness about everyday products, like laundry and cleaning. For one, people are more anxious about viruses and bacteria that they can't see and demand for disinfectants and hygiene products has skyrocketed. Families with small children are particularly anxious. Another change is that remote work has become more prevalent, and people are spending more time at home. More and more people want to share housework between family members and make housework simpler and easier. In particular, young people in their 30s are not only sharing housework between family members, but are also actively adopting robotic vacuums, house cleaning services, online grocery shopping, and other new products and services.

Nuriya: There have been two dramatic changes in the Health and Beauty Care Business. One is that the COVID-19 pandemic has made people more cognizant of death, and many people have a fundamental and strong desire for health care to avoid illness. The other is that people are more keenly aware of social issues. Before the pandemic, people could do whatever they wanted as long as they had enough time and money. But now, they can't go out or resume economic activity unless everyone works together to stop the spread of the COVID-19. As a result, more people are researching brands and companies' positions and ideas before selecting products. The higher the category's involvement, the more pronounced this trend is.

Shimotoyodome: The Life Care Business is creating new business to protect people's lives. We are experiencing three changes in our field: the acceleration of digitization and remote work, increased consciousness about health and hygiene, and a growing demand to make better use of more time spent at home, or rather, more time spent alone. In this environment of people not being able to go out, or having precious few chances to go out and interact with people, they are placing greater emphasis on experiential consumption. We also saw a polarization of people who were able to recreate healthy lifestyles for themselves amidst these changes, and those who slipped into unhealthy lifestyles.

Frank: In the U.S. and Europe, the Consumer Products Business is experiencing unprecedented changes due to the COVID-19 pandemic. Awareness of the importance of hygiene has risen significantly, and, in addition to their

bodies and homes, most people want every place they go to be clean and sanitary. One repercussion of this has been an increase in people concerned about chemicals. These people are opting for safer, milder and more natural ways of cleaning. More people are pursuing healthier lifestyles, and their needs have gone beyond beauty and are shifting toward health. Awareness of social problems has also increased significantly. People who were only concerned with themselves and their own country are now thinking about what they should be doing for greater society. This is becoming a major trend. If we look at buying behavior, the prevalence of e-commerce has dramatically changed consumers' attitudes and behaviors. They want to be able to get everything instantaneously from their own homes.

Pratt: In close to two years, the COVID-19 pandemic has brought ten-years-worth of change to the Salon Business in AEMEA, and we are still experiencing rapid changes. First, digitization has made a distinct impact. B2B business has suddenly become omnichannel including e-commerce and retailers. Relationships with consumers are now just as important as relationships with hair salons and stylists, and experiences and storytelling have become extremely important in addition to functional performance. While smaller companies have responded to these changes rapidly, larger companies have lagged behind. Second, there is an increased need for customization. Third, ESG is becoming the top priority for most consumers and salons. Fourth, health and beauty are converging. People want to make sure that products are not harmful to human beings or the planet.

Katayose: The target markets of the Chemical Business have experienced three shared changes. First, there has been an acceleration of technological innovation. Second, increasing geopolitical risk is affecting supply chains. And third, there are now extremely strong demands for sustainability in relation to things like carbon neutrality and biodiversity. These changes have been accelerating, and changing market structure. The pace of change is fast enough to say that the rate of acceleration itself is accelerating. As a result, the issues customers grapple with have become more complicated and sophisticated, and they are demanding products and services with more added value. As we operate our business, we have to anticipate changes in the market and our customers more than we have in the past.

What sense of urgency do you feel about Kao's current situation?

Hotta: One thing I feel a sense of urgency about is our lack of speed. I think we're too caught up in a system and rules that were designed for Kao's signature style of *Yoki-Monozukuri*, which involves doing R&D and marketing research overtime, and waiting for the right time to put the product on the market. This system worked exceedingly well up to a certain point and produced many top-selling products. But when times changed and the pace of change got quicker, we were too deferential to existing rules and weren't able to update them. The second is that our employees' spirit has declined. I think their freedom to take on challenges has decreased due to an increasing number of company rules and self-imposed controls. As societies tighten their regulations, it's important to be sensitive to changes in the world and maintain the ability to respond aggressively. The third risk is "drowning in data." Despite the massive amount of data made available through digitization, I believe it is harder now to understand the true nature of consumers' wants than it was when people had to hunt around without data.



Natsumi Hotta

Senior Executive Officer
President, Consumer Products -
Hygiene & Living Care Business,
Global

Nuriya: I have almost the same opinion. First, we tend to get left behind when markets and consumers change. Second, the COVID-19 pandemic tested the capabilities of truly global companies and our actions weren't swift enough. Third, we are seeing the negative side of Kao's careful culture. While Kao performs well in times of incremental change, it can't accelerate fast enough in times of rapid change. The current times call for a culture that values change and hates stagnation. I think companies like GAFA are born out of that kind of culture.



Kotaro Nuriya

Senior Executive Officer
President, Consumer Products -
Health & Beauty Care Business,
Global

Shimotoyodome: My sense of urgency is that we are now in the unpredictable VUCA era. The pace of change is accelerating, and values are being diversified in places beyond the reach of our antennae. In this situation, Kao's previous pattern of success, consisting of *Yoki-Monozukuri* and *Essential Research* built on Kao's methods of understanding consumers, is no longer viable. A second risk is that we have been slow to transform ourselves. Third, there is less "play." The R&D Division used to have more time. In the past, company culture allowed employees to make time to do what they wanted after completing their assigned work. This gave people room to have new ideas. In recent years, the amount of assigned work has increased and there's no time for playful work. Fourth, I think our lack of an appropriate system to create a useful database of Kao's data, skills and know-how is also a major problem.



Akira Shimotoyodome

Executive Officer
President, Consumer Products -
Life Care Business, Global

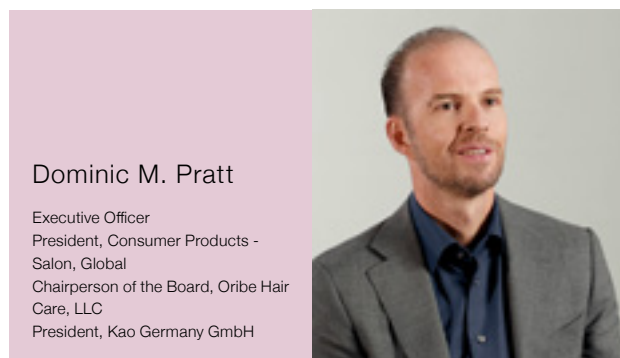
Frank: The thing I feel the biggest sense of urgency about is the organization's flexibility and fluidity. We should test different ideas and methods when working toward a major objective. Organizations have to be more flexible and fluid to respond rapidly to change. We also have to learn from smaller companies that are excelling. In modern business, most new challenges are coming from smaller companies. I think Kao has actually learned a lot from *ORIBE*. Another issue is our decision-making speed. It's becoming more and more important to make sure decision-makers have the right information and act quickly.



Karen B. Frank

Executive Officer
President, Consumer Products -
Consumer Care, Americas and
EMEA;
President, Kao USA Inc.

Pratt: Kao needs to place the customer at the center and review all its activities from the perspective of customer value. We should keep the concept of *Yoki-Monozukuri*, but the reality is that our decision-making process is time consuming. We need to have a system that allows for parallel incubation of new businesses. We also need to strengthen consumers' emotional connection to the brand by placing an emphasis on storytelling and experiential value.



Dominic M. Pratt

Executive Officer
President, Consumer Products -
Salon, Global
Chairperson of the Board, Oribe Hair
Care, LLC
President, Kao Germany GmbH

Katayose: One urgency I feel depends on whether or not our members can change the way they think about business. Business development is not going to come from seeds-oriented projects as it did in the past. For the value chain of their respective markets, our members need to consider; "How and who should we partner with? What kind of value can we create?" A second is whether or not we can respond faster to change. New technologies and products are being commodified at ever-increasing rates, and the structure of industry itself is changing. For example, people stopped going to the office by the acceleration of remote work, and the market for printer toner shrank significantly. Another notable change is rulemaking concerning green raw materials, which the U.S. and Europe are leading the way on. American and European companies are moving quickly to adopt green raw materials, and if we don't respond, there is a risk we'll be cut from the supply chain. Due to deforestation and human rights issues, it is essential to prepare to obtain other green raw materials in addition to palm oil. We're working to catch up with this movement and also preparing to supply bio-alcohols and bio-active agents to our consumer products business. The problem with adopting green raw materials is cost. But we are about to enter an era where talking about cost alone won't be enough.



Masahiro Katayose

Senior Executive Officer
President, Chemical Business, Global
Chairperson of the Board, Fatty
Chemical (Malaysia) Sdn. Bhd.
Chairperson of the Board, Pilipinas
Kao, Inc.
Chairperson of the Board, Kao
Chemicals Europe, S.L.

How will you manage your business going forward in light of these changes and the things you feel a sense of urgency about?

Hotta: Our brands are my top priority. One of our assets is that our business has many brands that have been supported by millions of customers for 40 or 50 years. I want to help these evolve into brands that will last for 100 years. Clarifying who the brands need to evolve for will show us what we need to do. We will stop using a product-oriented approach and will give the highest priority to customer value. Our business supports people in their everyday lives, and I want to provide products that anyone can use with peace of mind, regardless of region, gender or age, and that are also environmentally friendly. I want people to think, “I won’t have any problems if I buy a Kao product.” Our products should be easy for everyone to use and understand. We’re going to aim for that kind of straightforward value.

Another thing I want to focus on is developing the next generation of employees. We need to have a system that unlocks each employee’s maximum potential and also improves transparency and equity in personnel evaluations and personnel development. I think this will motivate employees and help them work better. I want to enable employees to work freely and organically across divisions and also help them find inspiration by getting out of the office and connecting with other companies and customers.

Nuriya: I want to create Kao’s distinctive value. I want to focus only on what’s useful for our customers. The foaming disinfectant *Bioré GUARD* is a good example. Most alcohol disinfectants are made with the same specifications as medical-grade products and the pump is difficult to push down. Only about one in four people actually push the pump to the bottom and obtain the required amount of disinfectant. In response, we made a container that could be operated with half the amount of force and changed it to a foaming agent so that it wouldn’t splash on people’s clothing or the floor, or get into children’s eyes. Thanks to those changes, almost everyone was able to use the required amount of disinfectant. In a nutshell, we can save more lives by focusing on making a product easy for everyone to use correctly rather than focusing on improving the performance of its contents. Also, Kao’s strength is manufacturing combination products. Men’s *Bioré* deodorant wipes combine non-woven fabric technology for sanitary products, antiperspirant skincare technology and powder makeup technology to create a product that specialized manufacturer cannot. We will also solve social issues through our business. In

the repellent business in Thailand, employees became surprisingly enthusiastic about their work after seeing how happy people were using the product. It’s hard to make large profits in businesses that deal with societal issues, but we can make money selling other products. Kao has a company culture of making customers happy, and I hope we can do more new business like that in the future.

Shimotoyodome: I think that saving lives requires both life sciences and human sciences. You can make amazing products by using life sciences, but you can’t save lives unless you can get people interested in using the products. We are engaging in many new businesses in the Life Care Business. Staying “evidence-based” and maintaining a sense of “play” are essential for that. We will stop thinking of our business only in terms of products, and start thinking in terms of services that make the best use of data. We will also change our philosophy from self-sufficiency to co-creation. We will find partners that share our goals to offer new value with them that cannot be created by Kao alone. By 2025, I hope to greatly expand the potential of our health solutions business and environmental hygiene solutions business. It takes more than goods to contribute to people and society. We will build a business that will please customers with the values and solutions it provides, rather than the products it sells.

Frank: To adapt to change and better compete with global corporations, we have to identify internal issues and solve them quickly.

We will strengthen *Bioré* by responding to demands for hygiene and cleaning products as well as demands for safe, mild, and natural products in the U.S. and European Consumer Products Business. We will invest in products that respond to environmental concerns as well as the development of purpose-driven brands to respond to increasing concerns about social issues. *JERGENS* is a body care brand with very good assets. We will solidify our core business around these initiatives and also look for new ways to expand our business in response to health needs. We’ve also launched a venture team to look for new business opportunities and tackle new initiatives across a broad spectrum, including development of distributors, licensing opportunities, new channel development, new customer development and entry into new markets.

Pratt: My top concern in the Salon Business is our

relationships with hair salons and stylists. We're going to use e-commerce and digital technologies to strengthen these relationships. Second, we will further strengthen products with unique qualities, like *Piston-Can*, *@Pure Pigments*, and *ELUMEN*. Third, we will focus on achieving our best performance. Performance is always the reason that salons work with Kao. We will simultaneously pursue natural, mild and eco-friendly products.

As its two main pillars, our business will focus on *ORIBE* and our hair color business, and we will create great synergy between them. They already work very well together. We will develop *ORIBE* as a purpose-driven, high-end boutique brand, as the world's top hair color brand, and as a progressive omnichannel brand. We will create loyal customers by luring them from retail outlets to salons and giving them the best coloring experiences. This strategy is already working well in the U.S., and we're getting ready to roll it out in EMEA and Asia as well. We can provide solutions for operating salons in ways that are more sustainable and better for the environment. We can also use digital innovation to provide education and inspiration to stylists and salons as well as help them improve their services and business models. We've learned a lot from *ORIBE*, and we hope to further improve it and have a positive impact on Kao as a whole.

Katayose: In the Chemical Business, we have to maintain customer-oriented value creation and customer trust. We should leverage our technology, our reach in a broad range of industries, our global business foundation,

our human capital and our customer assets. We must transform for building a sustainable society and building the future of industry. To achieve that, we will shift and concentrate our management resources, and further strengthen our foundation for growth. We will focus on Oleo Chemicals, which are an engine for growth, and five growth areas that provide one-of-a-kind value to customers. We will collaborate with external companies to strengthen solutions and attempt to achieve a qualitative shift in business.

To transform our business, we need a new business model and new ways to create value. We're bringing our collaborations with multiple partners to unprecedented levels, including competitors, customers, partners in other industries and public institutions. To use our agrochemical business as an example, we're creating a new service that combines digital technologies for things like monitoring and sensing.

Second is our PR strategy. We're changing our Chemical Business marketing from a push model that focuses on products to a pull model that focuses on customer value and social value. We're beginning to see results in several areas.

Third, we are also creating new value through personnel development and personnel utilization. We're launching a number of projects with our members outside Japan as leaders. Our members in AEMEA are sensitive to change and able to think out of the box. We need their help to transform and grow our business going forward.



Marketing Strategy

Reborn

Another

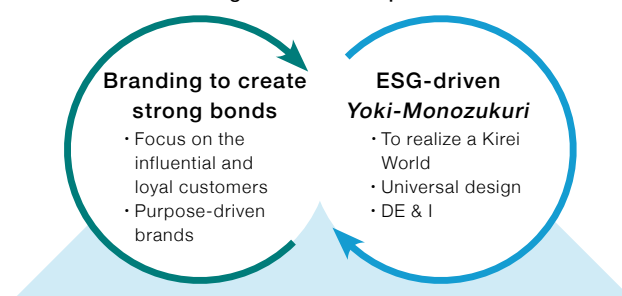
Loyalty-Based Marketing That Will Be Well-Received for a Long Time

Challenge to New Marketing

Product brands are the most important touchpoints between Kao and our customers. We are much clearer about the heart of each brand purpose and how they connect into and serve Kao's overall purpose. Our marketing aims to bring us close to each individual consumer and understand them at a much deeper level. This in turn will allow us to deliver for our customers in ways that allow them to experience our brand purpose for themselves. We deliver this value by bringing products and services to market that embody an ESG-driven *Yoki-Monozukuri*. This is what we mean by Life Value Solution Marketing.

Life Value Solution Marketing

Create new value for future life and society by being close to each person



Four Themes on Marketing Transformations

For the future of good manufacturing and marketing, we will bring about transformations with four key themes. The objective is to steer our businesses quickly and forward in the right direction by taking advantage of our strengths. The four themes respectively aim to achieve

competitive advantage. Advantage of market leader and first-mover, transform into a high-profit structure, create a new business field, and maximize of the power of our integrated approach. We have seen early results in 2021 from each of these four themes.

Brand management with a focus on core competence to strengthen category leading brands

Advantage of market leader and first-mover

Transform to loyalty-based marketing model

Reform into a high-profit structure

Personalized new experience with digital technologies

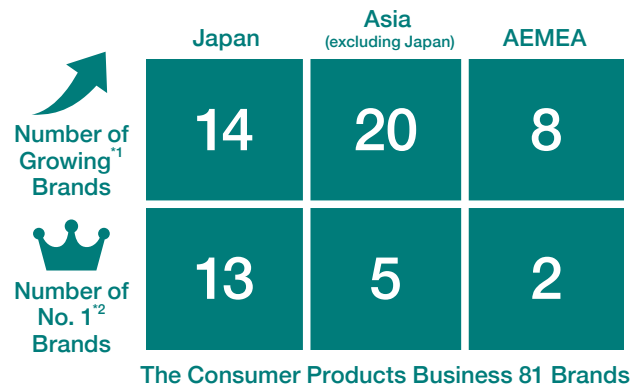
Creating a new business field

Global launch of unique technologies and products

Maximize of the power of our integrated approach

Brand Management with a Focus on Core Competence

Kao has created a brand portfolio for its toiletry and cosmetics businesses and clarified the investment strategy by brand, category, and areas according to the role of each product brand and the characteristics of each category. We will accelerate the development of strong brands by focusing on our core competencies with Life Value Solution Marketing. Out of Kao's 81 consumer product brands, 14 in Japan, 20 in Asia, and 8 in AEMEA, delivered over 105% year-on-year growth. 13 brands in Japan, 5 in Asia, and 2 in AEMEA held the No. 1 market share position in their market. Our goal is to quickly regain No.1 positions for our brands in Japan and focus on developing growth brands.



*1 Brands whose sales in FY2021 have grown more than 105% from the previous year

*2 Brands that won the No.1 market share in their respective categories in FY2021 (surveyed by Kao)

Transform into a Loyalty-Based Marketing Model

The key to generating a highly profitable business is to develop loyal customers with extremely high retention rates to save marketing costs and minimize products not delivered to customers. To do that, it is necessary to have deeper customer understanding, identify clusters (groups of similar people) and design more targetted products. In order to optimize our investment in SKUs, we will identify the needs of customer clusters (clear and potential) - and deliver highly desirable products to meet and exceed their expectations - while avoiding reaching out to customers without such needs.

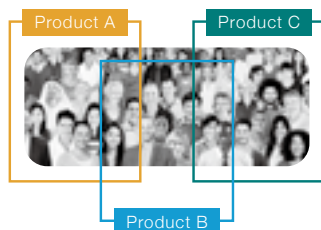
Kao is developing a framework that enables us to deliver appropriate and accurate information to customers and enables customers to thoughtfully assess whether or not a product suits them. More than ever before, we will be set up to design unique and cutting-edge products for every customer. Products will be chosen more appropriately, customer value and satisfaction maximized, and waste minimized (overstocking, unused product and wasted cost). This is our way forward for the future-oriented Life Value Solution Marketing.

Mass Trial Model

Large variety of **large-volume** products

Mass advertising and **huge costs**

Competition to show that our own products are better



Manufacturing that responds to the mass needs,
guaranteeing **low prices**

Large quantities of inventory and waste product

Targetted Loyalty Model

Carefully-selected products

Precise and **reliable** information

Competition to have consumers choose products that suit them



Manufacturing that suits each individual
to **let their personality shine**

Major reduction in waste product

Corporate dilemma Kao's chosen future

Personalized New Experience with Digital Technologies

Blaune Lumiést

Digital Hair Color Matching, and Eliminating Physical Color Samples

The bundled hair color samples displayed in stores had been effective for customers to select the right color, but the increasing effort to display and dispose of them at the time of each update became a big issue.

By developing an AR hair color simulation that allows customers to see different colors rendered to every strand of hair on their photo on the smartphone, Kao has managed to eliminate color samples completely from stores ahead of competitors, significantly contributing to reducing unnecessary color products. This initiative is in strong alignment with ESG-driven *Yoki-Monozukuri*.



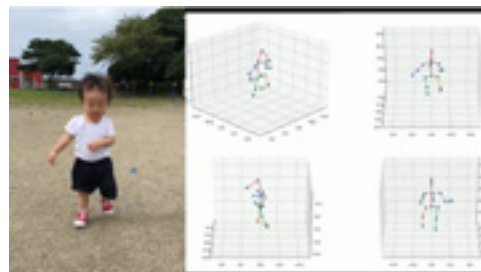
Reduced plastic usage by about
56 tons

Easy to imagine the hair color: **73%**
Users within one year after publication: **710,000 people**

Merries

Recommending New Slim Baby Diapers Based Walking Motion Analysis Technology

In China, where slim pants-type baby diapers are the norm, we launched a newly designed baby diaper that does not disrupt infants' walking, and remains slim and well-fitting after urination. We also provided walking-motion analysis technology on a standard app in China to allow users check their infants walking patterns and development by taking pictures of their infants with smartphones. This has resulted in stronger bonds with customers interested in healthy development of their babies.



KATE Lip Monster

New Value Proposition and UX for a New Normal

As masking becomes the norm in the prolonged the COVID-19 pandemic, *KATE Lip Monster* has seen an instant increase of users. This is largely thanks to Kao's proprietary technology that keeps lips moist with beautiful colors that do not transfer to the mask. Growth is also attributed to Kao's wide ranging digital communication strategies. Success of the technology with loyal customers far exceeded expectations, to the point where we could not keep up with demand at times. By applying proven technologies to design a unique product, and creating an arena for users to satisfy their needs to enjoy makeup even during the COVID-19 pandemic, we were able to bring about new value for the new normal era.

Lipstick market share by value:

33%

KATE Lip Monster

(January-March 2022, surveyed by Kao)

Makeup market sales
Makeup market sales out of major six divisions:

No.1 in four*

KATE

(FY2022, surveyed by Kao)
* Eyebrow, eyeliner, eyeshadow, lipstick

KATE
TOKYO



Global Roll-Out of Unique Technologies and Products

GOLDWELL SYSTEM @ Pure Pigments

Rainbow Dye

This non-reactive hair color product, which changes color every time you move, has finally arrived in Japan. Roll-out of this product is being promoted all over the world.

* Launched in Japan in September 2021
(Product specifications conform to the regulations of each country)



JERGENS NATURAL GLOW

Self Tanning (Stress-Free Tanning Technology)

Jergens Natural Glow gradually creates a flawless natural looking tan without exposure to sun, and is now creating even more value for customers by expanding the range of color tones available.



Image of changes in skin color

Two-Pronged Marketing Approach

In Reborn Kao, we will advance marketing to match customer needs more than ever before. However, doing that alone will merely be an extension of the current business. In contrast, the technologies, products, and services that will be part of Another Kao (which will be explained later) aim to build new business opportunities that create value

to serve future needs.

Reborn Kao's targeting and loyalty model is the same as Another Kao, in that they both utilize digital-based, accurate and appropriate data platforms. By further applying each technology to both existing and new businesses, we aim to bring the businesses closer in the future.

Sales Strategy

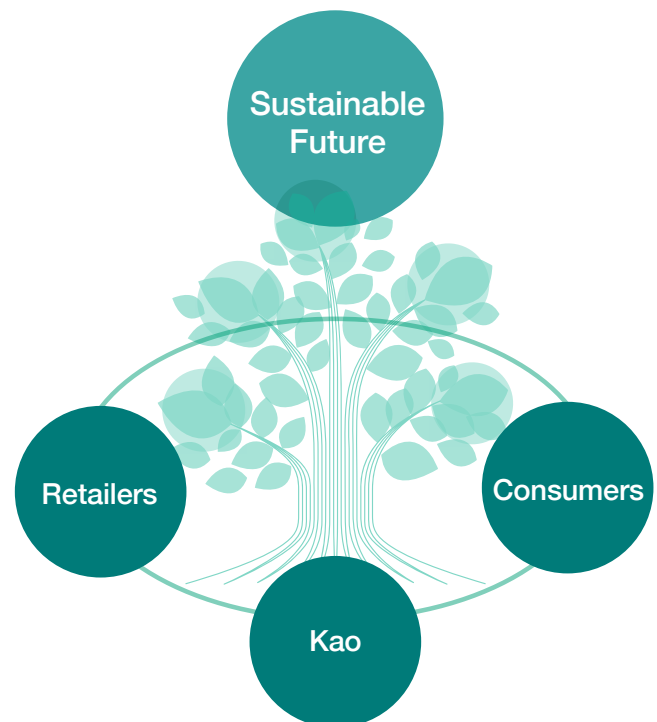
Deepen Co-Creation with Consumers and Retailers to Create Future-Oriented Business Models

Evolution of “Triple Win”

Since the establishment of Kao Hanbai Co., Ltd. in 1999, Kao's Sales Division has implemented various initiatives in order to realize “Triple Win” for consumers, retailers and Kao itself, with the aim of meeting the needs of both of our customers: consumers and retailers.

At the same time, the COVID-19 pandemic has accelerated the changes in consumers' purchasing behavior that have accompanied digitalization, the diversification of sales channels and also trend toward “borderless” markets. Responding to these circumstances, we will continue to evolve “Triple Win” by strengthening the ESG perspective and promoting value co-creation with customers.

The Social Communication Division, which was established in 2021, collaborates with local government authorities and works to address social problems affecting local communities. There are many logistics issues that are difficult to solve alone. To combat this, Sales Logistics Division was created in 2021 to collaborate with logistics companies and retailers, clarify issues and unlock sector wide solutions.



Strengthening to Provide Proposals and Solutions for Retailers

We are implementing integrated management that links together our Business and Sales Divisions as one, to strengthen our ability to provide product proposals to retailers. In addition, we are implementing collaborative product development whereby R&D, Supply Chain Management (SCM), Business and Sales all work together to develop products and services that meet the needs of consumers and retailers in a short space of time. By involving Sales Divisions in product development early, we can incorporate medium term sales expectations and brand perspectives. This allows for more sustainable product development which benefits retailers and Kao.

In addition, by making effective use of Kao's customer data obtained through stronger D2C sales and customer communications, we will be strengthening Kao's unique product

and service proposal capabilities with respect to both bricks-and-mortar retailers and online retailers.



Case Study of Value Co-Creation with Retailers

Using the Kao Group's official LINE account, which was launched in June 2021, we are taking on the challenge of building a “customer co-creation cycle” that makes effective use of both Kao's and our retailers' resources.

As of the end of April 2022, around 420,000 people have registered on this account.

Exploring New Channels and Customers, and Strengthening Global Launches

Kao is exploring new digital and physical sales channels to connect with consumers seamlessly and in the moment their needs arise during daily activities and routines. We are exploring new business partnerships and opportunities to allow us to respond faster to changes in everyday consumer purchasing. For example, opportunities associated with more people working from home, changes in use of public transport and shopping

habits. This will include things such as Furusato Nozei (Japanese hometown tax), food delivery and quick commerce.

In addition, our B2C e-commerce business is seeing significant growth outside Japan in countries such as China and the United States. We will accelerate the global expansion of our business by further co-creating with global e-commerce retailers.

Explore and Create Appealing Touchpoints for Consumers

Consumer communication routes have been shifting significantly from physical stores and TV advertising to social media. We are currently accelerating PR initiatives across organizational boundaries, for example with beauty staff who interact with customers in store and researcher division teams working on product development and marketing. Direct interactions between employees and customers significantly increases out two-way communication quality and speed of responding to customer needs.

In 2021, we opened the PR Training Center in Tokyo, introducing training programs for employees to sharpen their communications skills and opportunities to interact with consumers. It resulted in a dramatic increase in popular content on the Kao Channel, as well as a global increase in people participating in the program. We have now positioned this as an important initiative to maximize Kao's D2C business and integrating it more comprehensively into employee education and training.



Strong bonds through interactive PR



Aiming for maximum PR benefits through compact designs

Business Model Establishment for the Future

The most important factors for Kao to evolve and while sustainably contributing to society is to provide appealing, high value added products and services in appropriate prices. To do that, we are maximizing efforts to continuously reduce costs. We believe these efforts will strengthen trust with retailers and positively impact our relationship with consumers.

Meanwhile, given the impact of the world affairs on the future, it will be difficult for our household products to avoid the effects of raw material shortages and price hikes. Furthermore, the strong demand in Japan for low-priced household products is a level

not seen elsewhere across the globe. In response to actual and anticipated raw material procurement issues, we are deploying strategies with thorough consideration of price elasticity. Furthermore, in order to respond to various changes in business environments and continuously provide appealing value in all categories to win support from customers, we will deepen dialogue with retailers and advance added co-creation opportunities. To achieve this, we will deploy all of our experience and know-how in R&D, SCM, business, and sales, to maximize cost performance.

Research Strategy

Give Form to Our Ideas of “Protecting Future Lives” with *Essential Research* and Technology Innovation

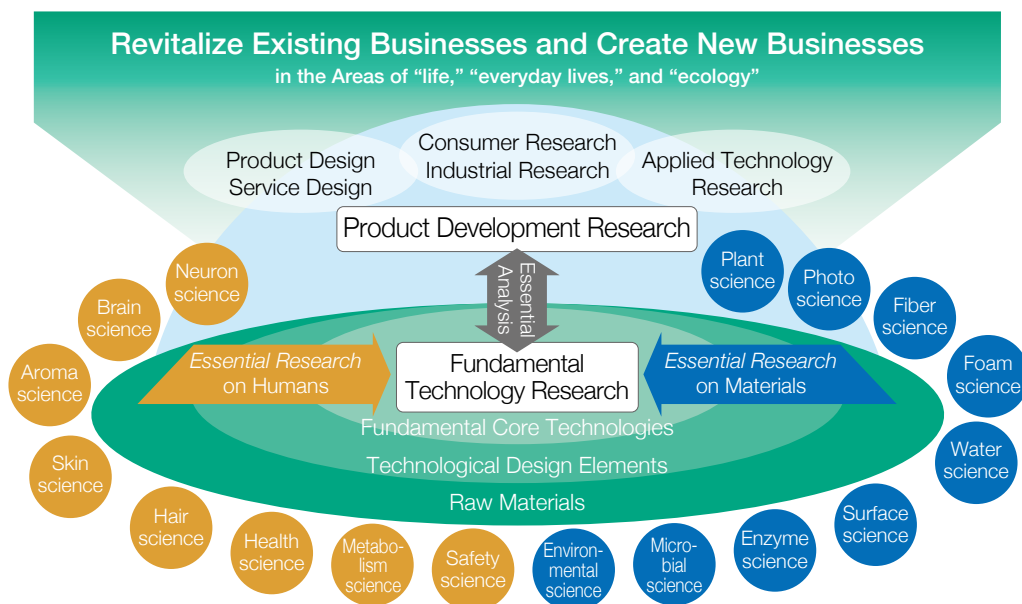
Essential Research and Technology Innovation

Our ability to manage technology assets in all of these areas is Kao’s unique competitive advantage.

Essential Research is one of the driving forces of our research agenda. Essential refers to the universal nature and root causes of phenomena that occur in humans and substances revealed through exhaustive investigation, offering clues to create new technology assets. We provide creative products and services by seamlessly linking up our technology assets with the needs of society, consumers and the industry.

Technology innovation is another driving force. We reconsider technology assets based on our core technology of Precise

Interfacial Control from the perspectives of consumer issues and social issues to create technologies, products and services that lead to new solutions and value. By setting the direction in the early stages collaboratively across our Business Divisions, we quickly develop innovative products and services and further examine new business opportunities for hygiene and recycling. In addition, by making more effective use of technology assets with advanced technologies outside of the company, we are able to identify new business opportunities in medical field.



Matrix Management and Evolution through DX

We are working across matrixed organization in R&D to gather knowledge across organizational and technical boundaries. Resourceful collaboration at research laboratories for fundamental technology and product development enables us to quickly respond to market and societal changes. In advancing our R&D activities, it’s essential to develop researchers’ advanced specialization, creativity and a spirit of challenge, have systems to support flexible collaboration. For

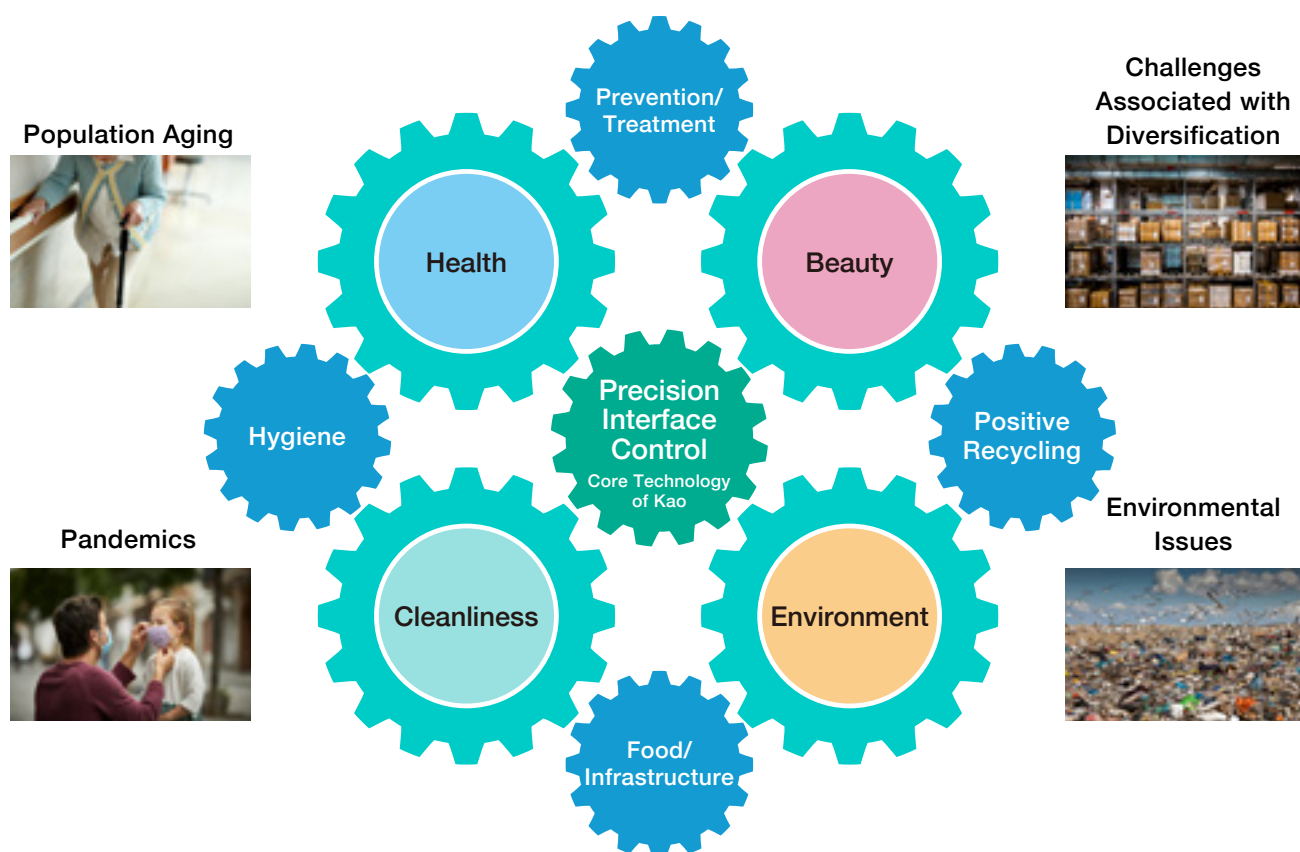
this purpose, we have established a research report database through which all researchers can browse all technology assets. We conduct highly participative, discussion based sessions. Our network of researchers are encouraged to collaborate, exchange ideas and unlock new discoveries. We proactively integrate AI, machine learning and material informatics into this, which will lead to further innovation creation.

Aligning Research Strategies and Business Strategies

Kao's core technology is precise interfacial control technology. It assembles substances of different natures to find seeds that bring about new combinations, achieving results that are otherwise considered impossible. There are infinite combinations. Right now, Kao's business is in Cleanliness, Health, Beauty, and Environment. We are poised to leverage and merge technologies from each business to refresh and revitalize business growth. This

thinking is applied to Kao's product development—the technology of one business is applied to another, and existing technologies are further developed to create new products. Raising the power of our integrated approach infinitely is essential in Reborn Kao. For Another Kao, it is also important to use core technologies and collaborate with a broader set of businesses and partners to promote new growth.

Challenge to Revitalize Existing Businesses and Create New Businesses through Technology Innovations



As the starting point for evaluating the business fields to expand in the future, Kao considers four main social phenomena: population aging, pandemics, environmental issues and challenges associated with diversification. It is essential for us to utilize Kao's assets more effectively, in response to these through our existing businesses and by creating new businesses.

However, reliance on company technology alone will not solve difficult major social issues fast enough or to a satisfactory level. Open innovation is essential to reach higher goals as soon as possible and with greater impact. Kao will promote open matrix strategies to shift gears quickly and powerfully, as shown in the diagram above.

New Power Created by the Power of Our Integrated Approach

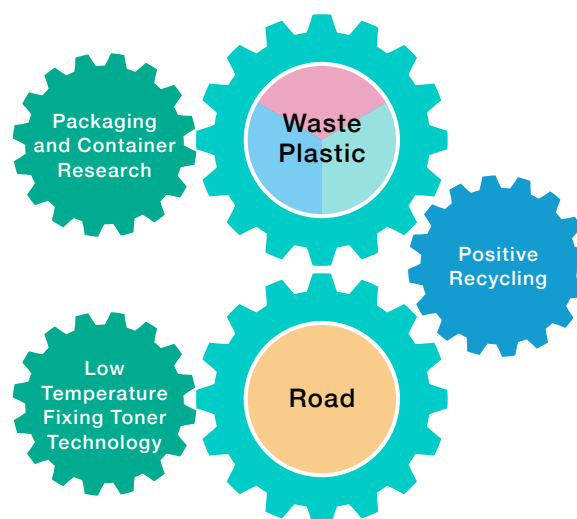
Positive Recycling

Beauty/Health/Cleanliness × Environment

● Responsible use of plastic, moving toward circular societies

As a consumer goods company that uses various plastics in production, we have a clear responsibility to reduce our use of plastics and reuse where possible. Packaging-to-packaging recycling however, requires effort to collect and refine, resulting in environmental overload. So we need more solutions and innovation to move forward in ways that are truly sustainable. To address this, Kao is promoting positive recycling initiatives, turning low-purity, hard-to-recycle plastics into reusable materials using as little energy as possible. Its core technology is the technology that turns waste PET into high-durability asphalt. Kao is one of the market share leaders in polyester toner binders that have fixed low temperatures which reduces the environmental burden from photocopiers because the binders can be used at low temperatures. The development of this technology led to the birth of a durable asphalt modifier *NEWTLAC 5000*.

Technologies from one field can solve issues in other fields and solving issues in one field creates value in other fields. Positive recycling is a typical example of how technologies and solving issues can be tightly and powerfully connected to create new businesses. We are enthusiastically committed to developing new recycling models by promoting such technologies.



Safe Repellent

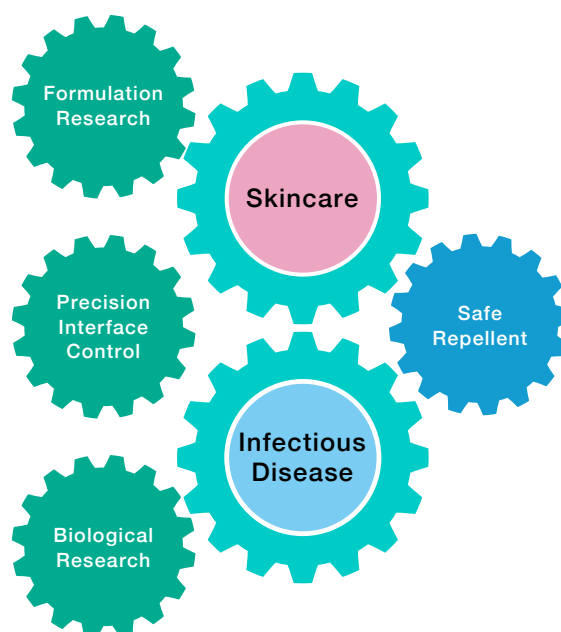
Beauty × Health

● Biological research to eradicate dengue fever combined with skin protection research

An effective way to block infections by vectors (intermediaries) that cause malaria and dengue fever is to stop the vectors (mosquitoes) from approaching people.

After meticulous research on the behavior patterns of mosquitoes, Kao has identified ways to completely repel mosquitoes from landing on skin. It was also revealed that compared to traditional repellent that often causes drug resistance in mosquitoes, this system is less likely to cause resistance while also being safer for humans. After further evaluations and using skin care product technology, Kao successfully created a solution that maintains mosquito-repellent qualities, while incorporating a texture and scent that people find pleasant.

Verification tests in Thailand and Indonesia confirmed it's effective repellent qualities and willingness of people to apply it without hesitation - including small children. We believe this solution has high potential to become part of people's daily routine. In Thailand, this system has been launched in the skin care brand, *Bioré*.

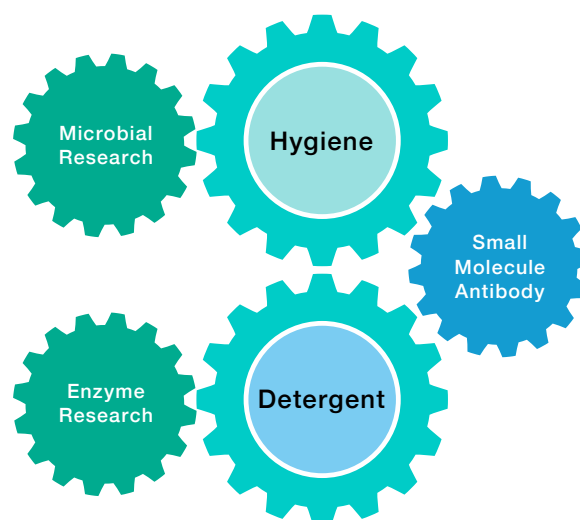
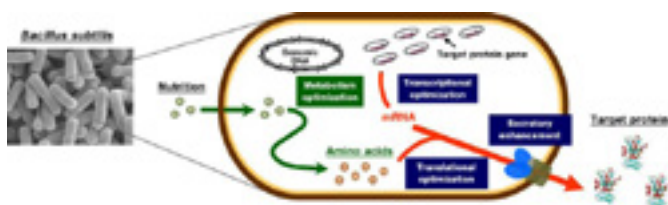


Small Molecule Antibody

Cleanliness × Health

● Protein production system using *Bacillus subtilis*

Kao has various technologies to control microorganisms, such as bacterial control technology to maintain product integrity; antibacterial and bactericidal technology for common bacteria and viruses; and bacteria metabolism control technology to suppress unpleasant bacterial odors. By using these technology platforms, Kao has successfully obtained VHH antibody that has infection-inhibition properties against the COVID-19. Kao sees a huge opportunity to contribute to effectively preventing and devising measures against infectious diseases by using protein-producing technology from bacillus subtilis, which Kao had developed to produce enzymes used in fabric detergents, for the production of antibodies.



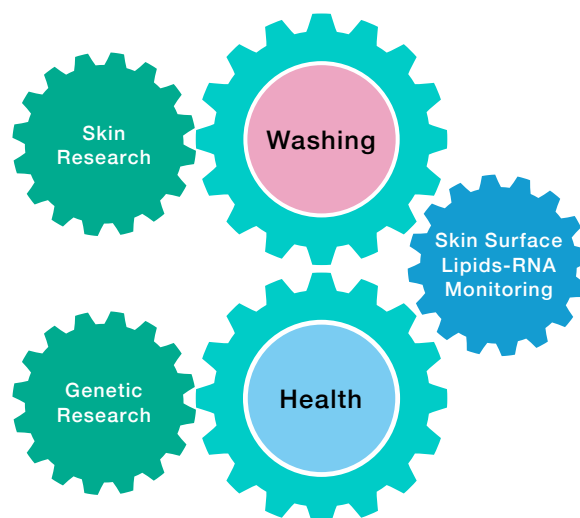
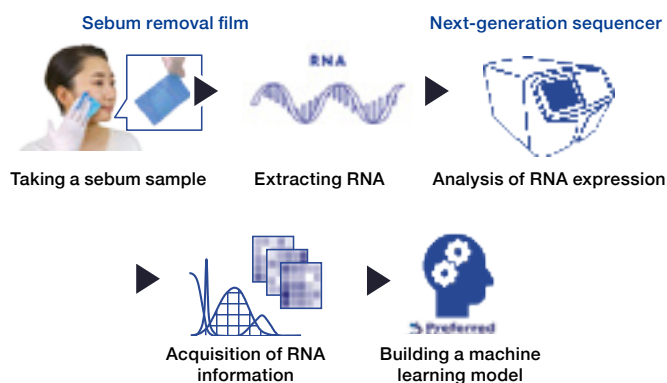
Skin Surface Lipids-RNA Monitoring

Beauty × Health

● Development of precision and monitoring technologies

In addition to obtaining and amassing data on human bodies, evidence-based understanding of human body mechanism is essential for making beauty and health suggestions to individual consumers.

Alongside the feedback we receive when consumers use our products, we have substantial know-how across a range of areas that will allow us to bring new services to market using AI. For example, skin conditions detected by various bio markers, changes in blood capillaries and metabolism.



Intellectual Property Strategy

Further Realizing Our Purpose and Enhancing Corporate Value in Collaboration with Business and Research Divisions

Basic Policy

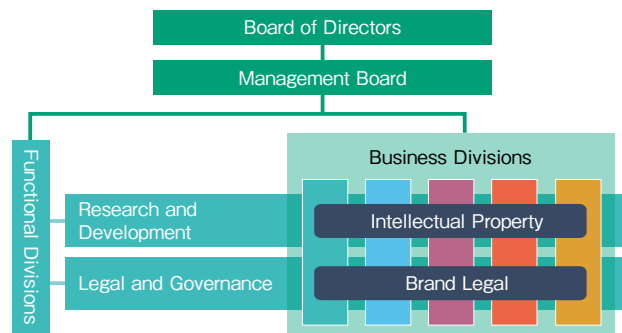
Intellectual property (IP) strategies play a crucial role in Kao achieving its goal to contribute to a sustainable world in the long-term and enhance corporate value. We create and protect our IP and advance its strategic usage while collaborating closely with R&D and Business Divisions to ensure they are a driving force in creating innovation, establishing competitive edge and increasing productivity of our business activities.

- Innovation to realize our purpose
- Creating competitive edge to enhance sustainable corporate value over the long-term
- Improvement of productivity of our business activities for R&D and business development



Structure and Management

We implement company-wide management of IP through the integration of our IP Department (under R&D) and our Brand Legal Department (under Legal and Governance). On a case-by-case basis, Business, R&D, IP and Brand Legal teams work as one to launch a project and routinely share information. If an issue or significant opportunity arises, it is submitted to the Management Board first for deliberation, and subsequently to the Board of Directors to deliberate when necessary.



IP Creation

We promote multifaceted initiatives to ensure any achievements are qualitatively and quantitatively superior IP. We encourage streamlining by supporting R&D and business development that respects the rights of others and avoids infringement.

● Building and managing IP portfolios

In order to ensure a competitive edge by strategically obtaining IP, and to achieve effective co-creation, we implement multi-faceted information analysis using the methods for IP landscaping and construct an IP portfolio that is qualitatively and quantitatively comprehensive while closely collaborating with the R&D and Business Divisions. In the formation of patent rights, we examine claims based on the nature of the technology and from the perspectives of

corporate value and customer value as well as claims from multiple perspectives predicting future expansion and trying to extend the boundaries of existing business. We are also solidifying our relationship with patent attorneys in major countries and regions and multiple emerging nations and are acquiring rights in accordance with the legal systems of each country.

● IP education to improve IP literacy

We are implementing wide range of IP education and training programs customized for experience and roles, our researchers can increase their contributions to actively create IP and build IP portfolios.

● Enhancing motivation to invent with an incentive system

Once each year, useful patents and other IP rights that have contributed to business are reported to the Management Board, which deliberates rewards for employee inventions.

● Respecting the rights of others and avoiding infringement

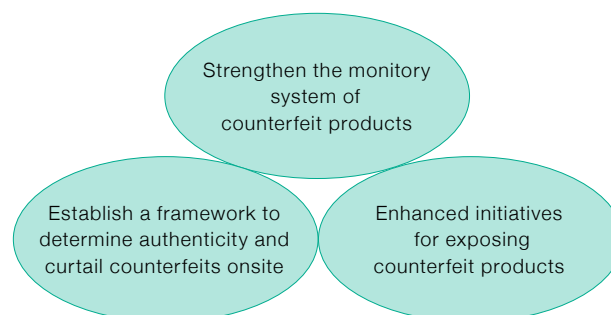
We are strengthening our efforts to avoid infringing on the IP rights of others, through the IP Department participating from the initial stages of R&D and establishing verification steps prior to the launch of the product.

IP Protection

We secure value by protecting our IP and resolutely exercising our rights.

We vigorously protect against any infringement of our IP rights by others in accordance with laws and regulations. Specifically, we respond resolutely to counterfeit products in emerging nations which are becoming more sophisticated. We pursue an IP Mix Strategy, namely the utilization of multiple rights (patents, utility models, industrial designs, trademarks and copyrights), as well as collaborate with intellectual property industry organizations, government agencies, e-commerce sites and other companies in the industry to make our activities for IP protection more robust. Moreover, sharing our expertise also contributes to the development of the overall field of IP protection.

Responses to Counterfeit Product Risks



IP Utilization

We will actively advance innovation by supporting the timely and appropriate social implementation of IP, its sophisticate usage and co-creation with other companies.

● IP strategies to co-create with partners

In order to address the difficult to solve social issues and to develop new business models, we will co-create new technologies in cooperation with industry, academia and government agencies, and flexibly license and provide access to these technologies. In our business domains, co-creation with partners such as Another Kao and the Chemical Business is indispensable, and IP strategy plays a particularly critical role to guide these business decisions. In joint projects conducted by Business, R&D and IP, we assess the needs of the market and our partners, examine new business and development themes and suggest co-creation scenarios while applying methods for IP landscaping. Moreover, we are committed to IP management through an open and closed strategy and information and contract management to prevent technology contamination.

● Contribute to science, technology and society

We are committed to leveraging IP in our products and services as well as contributing to technological development through the release of technology to promote socially beneficial technologies. In particular, we have gradually provided access to our packaging technology aimed at reducing the amount of plastic used.

Example of releasing technology



Packaging containers to reduce the use of plastics

Another Kao

Create New Businesses

Reborn

Maintaining the status quo
is the same as retreating.
Transformation makes us stronger.

Another

Creating new businesses
is a difficult challenge now,
but will be essential in the future.

Pursuing “Another Kao” to Realize the Future of Our Children’s Dreams

Commitment to the Future



Regenerative Lifestyles

Plan for and enable sustainable consumption and regeneration.

We strive for a planet where all people have fulfilling and enriched lives with peace of mind while regenerating the global environment in collaboration with all of our stakeholders.



Toward Carbon Negative

Move beyond CO₂ reduction and unlock CO₂ recycling.

We will reduce CO₂ emissions through our activities and the use of our products and services as much as possible. Furthermore, we are aiming for carbon negative by developing technologies in which CO₂ in the air recycled and reused in raw materials.



Zero Waste

Waste nothing. Period.

We use precious resources without waste and revert products to raw materials after use. We strive for a world in which waste is not generated through our activities.



Precision Life Care

Every person is unique. Our solutions will be too.

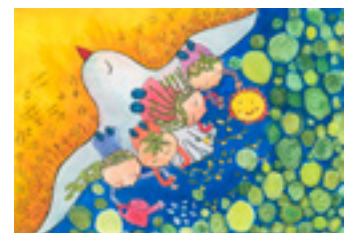
We provide optimal solutions for each individual, by better understanding their diversity and accurately forecasting their future risk factors.



Leave No One Behind

Innovation can be for everyone. We won't stop.

We fully utilize our assets to make small but steady steps so that people facing serious problems from aging and illness can live with peace of mind.





Regenerative Lifestyles

Plan for and enable sustainable consumption and regeneration.

Basic Policy

Kao's entire history has been about contributing to the satisfaction and enrichment in people's lives worldwide. However, as environmental issues worsens, population ages and threats of natural disasters and pandemics jeopardize everyday lives, we have been thinking once again about our goal to enrich people's lives. We have come to two conclusions. The first is that enriching people's lives cannot be an excuse for environmental destruction. The second is that we should be there for people not only in healthy and tranquil everyday life, but also in serious situations such as illness or disaster.

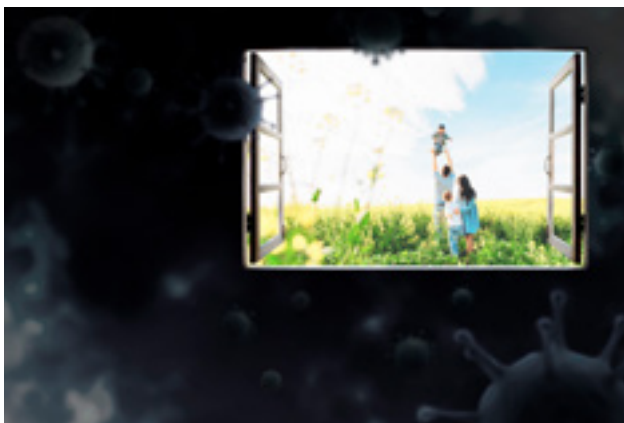
Kao's concept of "Regenerative Lifestyles" aims not only to maintain the status quo, but to make things better, even if only gradually. It is about changing things for the better not just individual lives, but for the communities and societies that surround them and of course our planet and natural environment. Much is required to achieve this, but we believe the basis for everything is the way individual people live their everyday lives. We believe that as a company whose core business is offering daily necessities, our role is to enable Regenerative Lifestyles by being close to, understanding and co-creating solutions with people.

Our Two Commitments as the Foundation of K25

● There Are Limits to Growth, but Not Development

The IPCC* report released in February 2022 warns that anthropogenic climate change is impacting the lives of billions of people worldwide, leaving those least able to cope, as well as ecosystems, in extremely serious circumstances. Because our core business is offering necessities that people use every day, moving away from mass-production, -consumption, and throw-away societies is extremely important and urgent. We will accelerate our steps toward a path of "development" that aims for qualitative improvement or the establishment of new principles, rather than "growth" in terms of quantity.

* IPCC: Intergovernmental Panel on Climate Change



● Protecting Everyday Good Health for Enriched Lives

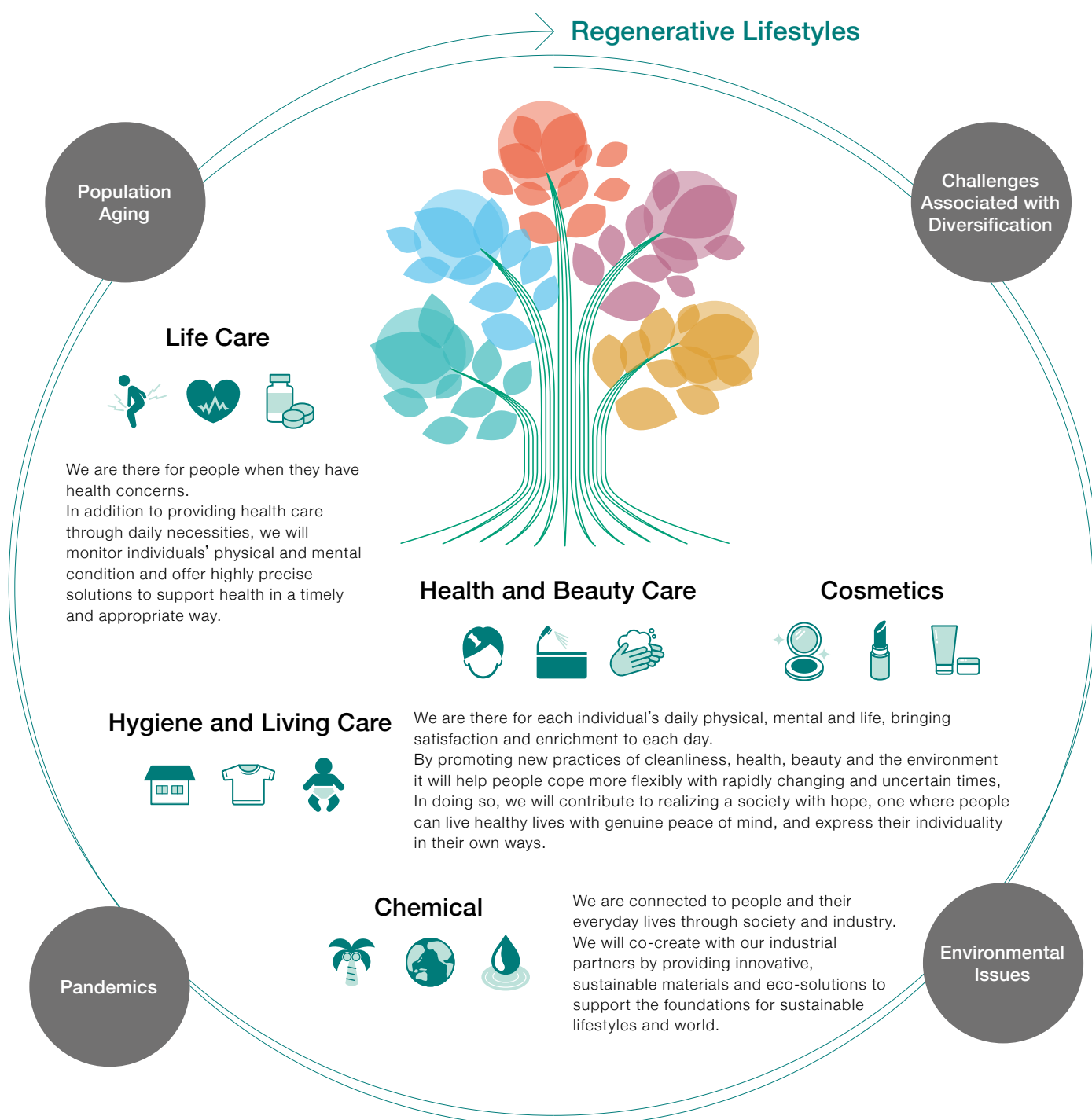
The aging global population, increase in lifestyle related diseases, spread of infectious diseases, and the increase in natural disasters associated with global warming, have made illness and anxiety part of everyday life. As a company whose core business is offering daily necessities, it is our duty to protect our customers from threats to their everyday lives. However, these threats are increasing and becoming stronger. This is why we are committed to finding ways to offer our customers higher levels of protection and realize more effective medical treatment to safeguard their everyday lives from the anxiety of illness.

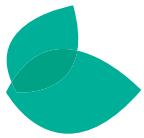
Approaches to Creating Regenerative Lifestyles

Through our five business segments of Hygiene and Living Care, Health and Beauty Care, Life Care, Cosmetics and Chemical, we are connected to people, society and the planet all day, everyday. This means we are in the privileged position to gain insight into what people are thinking. We

will support the realization of Regenerative Lifestyles for all people by promoting new practices of cleanliness, beauty, health and the environment—practices anyone can engage in, effortlessly and enjoyably.

Regenerative Lifestyles





Toward Carbon Negative

Move beyond CO₂ reduction and unlock CO₂ recycling.

Basic Policy

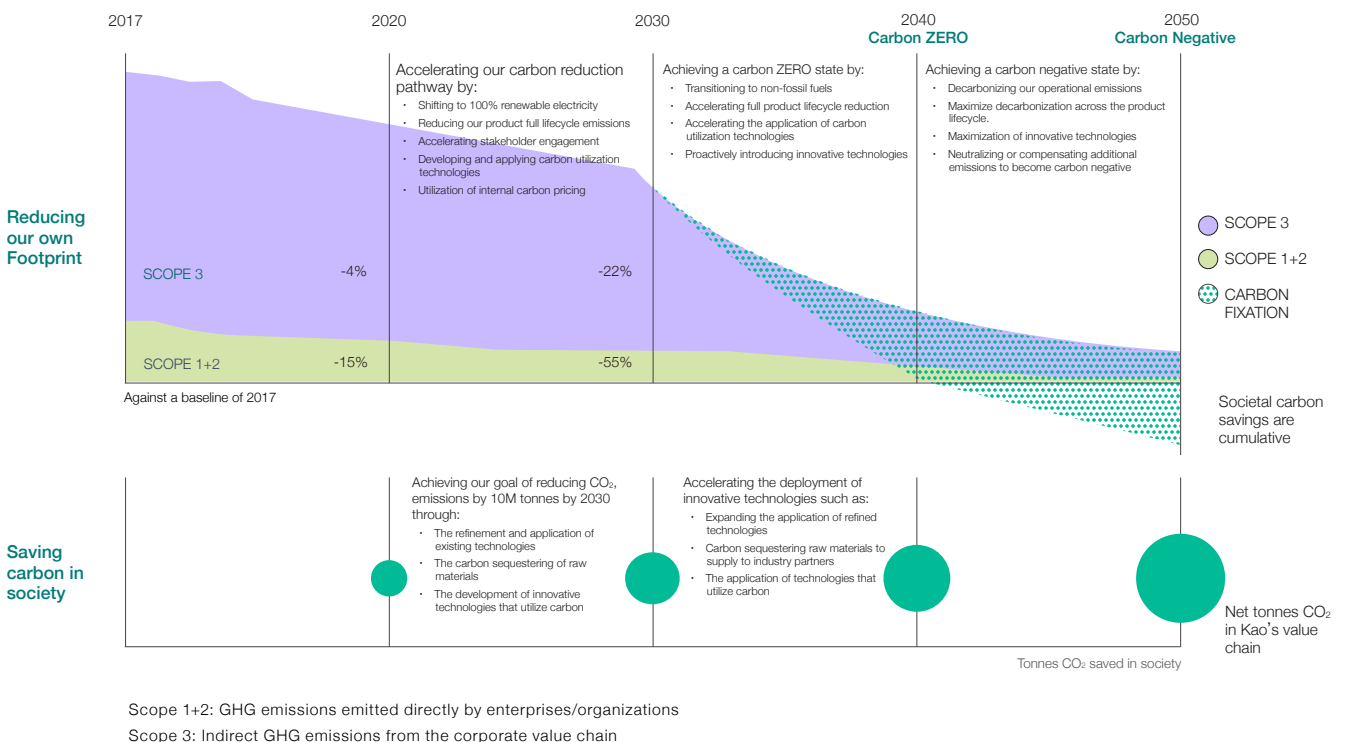
While most of the world is working to achieve carbon neutrality by 2050, our goal is carbon zero by 2040 and carbon negative by 2050. To reduce CO₂ emissions from our own worksites (Scope 1+2), we will strengthen the Internal Carbon Pricing System and accelerate the introduction of the latest energy-saving and low carbon equipment to prevent facilities from becoming stranded assets. With respect to reducing CO₂ emitted over the product lifecycle (LC-CO₂), which accounts for the majority of Scope 3, we are working with consumers and

various stakeholders to provide products that are safe for consumers to use while emitting less LC-CO₂. In addition, we are expanding our products and services that contribute to the reduction of CO₂ and developing technologies to recycle CO₂ for reuse in raw materials.

We are also accelerating the development of products that will help people cope with rising temperatures. Realizing a sustainable world where all life lives in harmony requires us to be focussed simultaneously on both mitigation and adaptation solutions.

Target

Toward Carbon Zero by 2040 and Carbon Negative by 2050



Principal Approaches for Scope 1+2 Reduction

We have been aggressively promoting energy conservation activities since the establishment of our company-wide Energy Conservation Conference in 1977. In 2010, we installed our first photovoltaic power generation system. This has now expanded to 16 locations with a total generation capacity of 6,946 MWh. In 2014, our German household products plant began procuring renewable energy. Today, we are doing so at many locations. Use of renewable power reduced CO₂ emissions by 168 thousand tons. In 2006, we



Photovoltaic (solar) power generation facilities at Sakata Plant

Performance in 2020	-15% (vs. 2017)
Performance in 2021	-20% (vs. 2017)
Targets for 2030	-55% (vs. 2017)

introduced an internal carbon pricing (ICP) system and are using it to create energy-saving, low-CO₂ infrastructure. In 2021, we raised the ICP price to 18,500 yen/ton-CO₂ and accelerated the acquisition of low CO₂ emission- equipment.

Total Generation Capacity of Solar Power Equipment (2021)

Company/Plant	Total generation (MWh)
Sakata Plant, Kao Corporation	1,708
Tochigi Plant, Kao Corporation	1,660
Toyohashi Plant, Kao Corporation	413
Kao Sanitary Products Ehime	407
Atsugi Logistics Center, Kao Logistics	274
Sumida Kita Logistics Center, Kao Logistics	219
Wakayama Office, Kao Corporation	64
Sumida Office, Kao Corporation	42
Kawasaki Plant, Kao Corporation	11
Kao Industrial (Thailand)	781
Kao Corporation Shanghai	558
Pilipinas Kao	370
Kao Penang Group (Malaysia)	184
Kao Chimigraf	111
Kao USA	109
Kao Austria	35

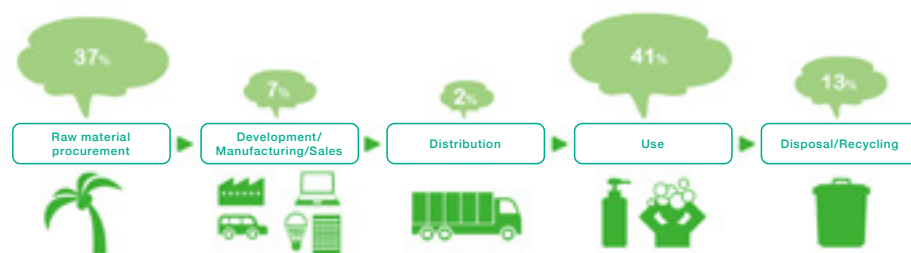
Principal Approaches for Scope 3 (LC-CO₂) Reduction

The raw materials procurement process accounts for about 40% of LC-CO₂. To reduce emission during this stage, we are continuously reducing the amount of raw materials and packaging used for our products. We formulated our Partnership Requirements for Suppliers, which state that suppliers are expected to promote decarbonization throughout

the product lifecycle.

The product use process also accounts for about 40% of LC-CO₂. The principal source for most of these emissions is the water and hot water used during the wash and rinse cycles. To mitigate this, we have launched products that reduce the amount of water used during the rinse cycle and are developing new ones.

Performance in 2020	-4% (vs. 2017)
Performance in 2021	-4% (vs. 2017)
Targets for 2030	-22% (vs. 2017)



Percentage of CO₂ emitted at each stage of Kao's products lifecycle (2021)



Attack ZERO laundry detergent realizes single-rinse usage.

Technology Development to Become Carbon Negative

Since CO₂ emissions cannot be reduced to zero for every corporate activity and product lifecycle, carbon zero and carbon negative can only be achieved by capturing and fixing

CO₂ in the air and recycling it. We will take on the challenge of developing various technologies to recycle CO₂ as a resource, with the target of social implementation by 2030.

Targets for 2030	Social implementation
Targets for 2040	Carbon Zero
Targets for 2050	Carbon Negative

Zero Waste **Waste nothing. Period.**

Basic Policy

If we fail to change our lifestyles, the amount of waste will compound unsustainably, leading to resource depletion and environmental destruction. At Kao, our goal is to realize a zero-waste society by reducing the amount of resources used (Innovation for Reduction) and effectively utilizing 100% of waste generated (Innovation for Recycling). Specifically and as a first priority, we are working to reduce

the amount of, and effectively utilize, waste generated from our worksites. We are also promoting activities to eliminate overproduction in such areas as products and promotional materials. In particular, we are focused working in cooperation with other companies and local communities to deliver innovation to reduce and recycle plastic packaging.

Innovation for Recycling Plastics

● Positive Recycling: From Waste PET to High-Durability Roads

While asphalt pavement is generally inexpensive and easy to install, it has relatively limited durability. In a fast approaching era of fully automated driving, asphalt paved roads are expected to deteriorate at accelerated rates because cars will be programmed to routinely drive over the same area of road. We believe that more durable roads will be required.

Made from waste PET, the modified asphalt material, *NEWTLAC 5000*, improves the durability of asphalt paved roads, reducing the frequency of repairs, which in turn reduces environmental overload, maintenance costs and road dust pollution. *NEWTLAC 5000* can also maintain surface blackness compared to conventional pavement, so white lines will be more distinct and likely to contribute to safer driving.

Through this business, Kao will be solving for the waste PET recycling problem in the consumer products industry by connecting it with decarbonization needs of the construction industry, while simultaneously contributing to safer roads.



Parking three years after construction

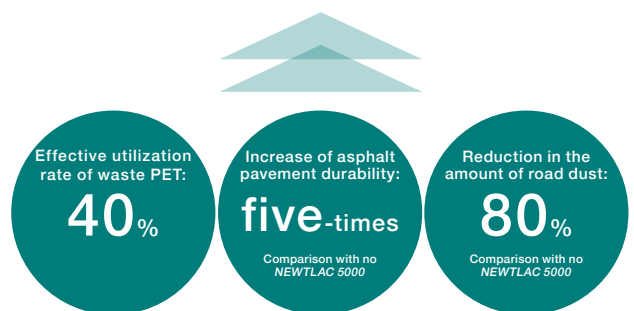


Won the Japan Resilience Award Gold Award (Resilience Award) in recognition of its realization of resilient and greener pavement.

Features and Expected Value of *NEWTLAC 5000*

Contributions to the Era of Automated Driving

- Durability of roads will be important.
- Visibility of white lines is important in monitoring the track of autonomous cars.



Kao's evaluation data



Control

With addition of
NEWTLAC 5000

The black color of the asphalt pavement continues, making the white lines more visible for drivers and contributing to safer driving.

● RecyCreation* Activities

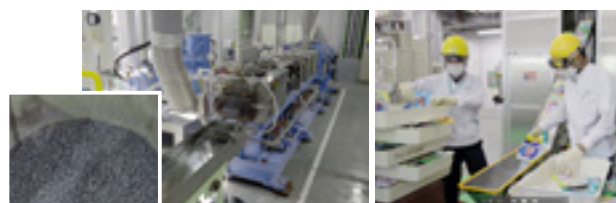
Since 2015, we have been working on RecyCreation* activities to create new value by adding technology, know-how and ideas to used packaging containers such as refill packs in five regions across Japan. Since October 2020, we have been conducting recycling field testing in collaboration with Lion Corporation. Our ultimate goal with these types of efforts is to realize a resource-circulating society by creating a system for separated collection and recycling that is fun and easy for everyone to participate in.

* RecyCreation is a portmanteau word created by Kao that combines "Recycling" and "Creation."



● Horizontal Material Recycling

Since June 2021, we have been developing recycling technology at our pilot plant for film packaging recycling at Wakayama Research Laboratories, with the aim of delivering horizontal recycling of plastic packaging. At the same time, we are exploring such areas as effective separated collection processes and easier-to-recycle packaging designs.



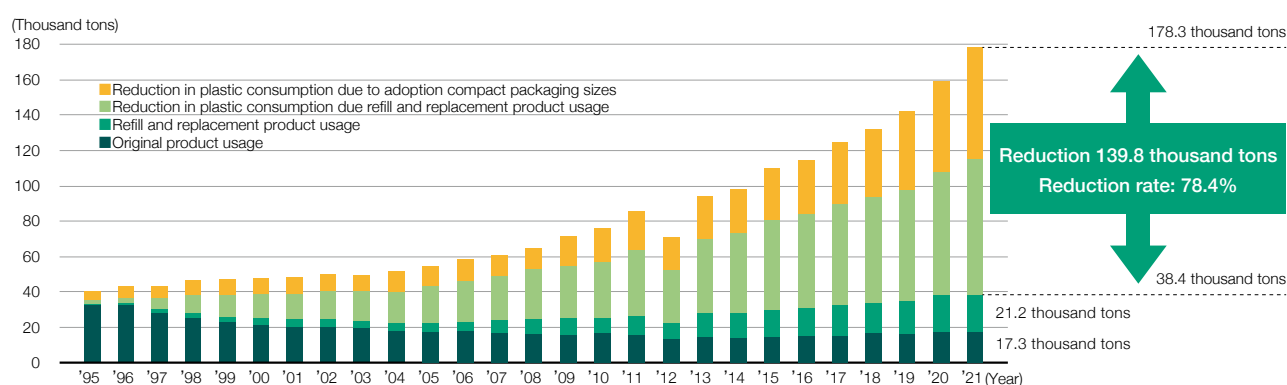
Pilot plant for film packaging recycling introduced at Wakayama Research Laboratories

Innovation for Reduction in Plastic Packaging

Plastic packaging consumption in 2021 was reduced by 139.8 thousand tons through the use of refill and replacement products and changes to product concentration levels. To further expand our impact, we are providing the Raku-raku Eco Pack Refill, a film type packaging developed by Kao,

to other companies and experimenting with in-store refill stations (sold by volume). As planned, in 2021 the entire Kao Group eliminated the use of eye-catching plastic stickers as a sales promotion tool, thereby reducing the use of plastic by approximately 60 tons.

Trends in Plastic Consumption Reduction and Actual Performance for FY2021



In-store refill station



Information on eye-catching stickers displayed on product packaging



Precision Life Care

Every person is unique. Our solutions will be too.

Basic Policy

In an era when more and more people can expect to live to 100, the ability to achieve a fulfilling life over a long span of time requires not only physical health but also maintenance of good quality of life in general. To this end, we believe in the importance of optimal life care tailored to each individual. Such care involves a more precise understanding of one's own body and lifestyle choices, personality traits and preferences, to know what needs to be addressed now and respond appropriately.

Precision Life Care consists of two core technologies:

Precision Monitoring, which accurately profiles an individual's

condition, and our Virtual Human Body Generative Model, which has a comprehensive set of over 1,600 different attributes able to estimate the statistic patterns in which they appear. Individually or in combination, these technologies can provide a wealth of previously unavailable insight. Use of such information and insight will make it possible to deliver precise and unparalleled solutions to each individual.



IR Meeting: Precision Life Care (March 16, 2022)

www.kao.com/global/en/investor-relations/library/business-strategy-presentations/

Precision Life Care Core Technology

General-purpose

Virtual Human Body Generative Model



Photo: PIXTA

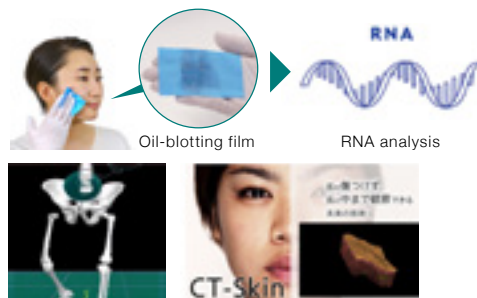
Comprehensive profiling of a wide range of attributes

Not tied to PII*

- ▶ Diverse data is utilized (easy collaboration between different businesses)
- ▶ Mutual relationships are clarified (estimation of joint probability distribution)
- ▶ Widely related to many purposes (comprehensive estimation)

Precise

Precision Monitoring



Precisely identifies the state of an individual

Tied to PII*

- ▶ Dynamic data is utilized (good at tracking hours and spaces)
- ▶ Cause-and-effect relationships are clarified (identification of the cause)
- ▶ Deeply explores a specific purpose (precise identification)

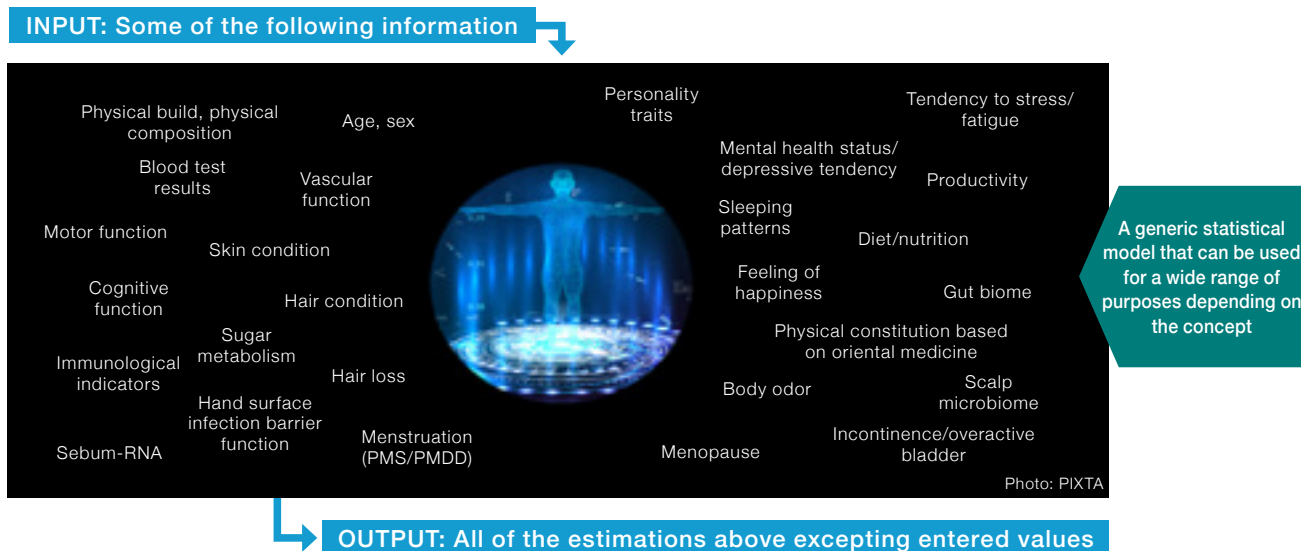
*Personally Identifiable Information

Core Technology: Virtual Human Body Generative Model

The Virtual Human Body Generative Model is a system for estimating whole-body health information that Kao is developing in collaboration with Preferred Networks, Inc. (PFN). The health information profile includes approximately 1,600 attributes, including those shown in the figure below.

Entering data for some attributes allows the values for all other attributes to be estimated with a certain probability. The validity of the estimates depends on the nature of the attributes to be estimated and the quality and quantity of the input information.

Examples of the Wide Variety of Attributes Provided by the Virtual Human Body Generative Model



Core Technology: Main Precision Monitoring Technologies

We possess proprietary technology that enables the acquisition of a range of biological data in a highly accurate and non-invasive* way.

*No insertion of instruments into the skin or body orifices, such as injections or surgery.

Sebum RNA Analysis

This technology uses RNA in sebum collected from the skin surface to analyze not only individual differences, but also changes in physical condition such as aging, fatigue and illness, as well as the effects of external stresses such as UV rays and dryness.

Examples of accurately diagnosed problems

- Parkinson's disease
- Atopic dermatitis
- Pre-menstrual syndrome
- Chronic stress

Walking Motion Analysis

This technology infers three-dimensional walking motion from two-dimensional video and analyzes the state of development and defects in bodily functions.

Examples of related issues that can be accurately estimated

- Knee pain
- Back pain
- Falls
- Incontinence
- Muscle strength deterioration

Skin Image Analysis

This technology acquires 128 skin tomograms in seven seconds without cutting the skin, and visualizes the interior of the skin, capillary condition and blood flow movement as a two-dimensional image.

Examples of precisely identified conditions

- Metabolism
- Brown spots
- Wrinkles
- Rough skin
- Moisturizing properties
- Fatigue

Microstructure Analysis

We are working to develop a range of analytical technologies that will enable us to visualize phenomena that were previously invisible.

- Example 1: Technique to evaluate the inactivation effect of chemical formulations on human noroviruses
- Example 2: Technology for rapid, sensitive analysis of chiral amino acids in blood, which are associated with cognitive function

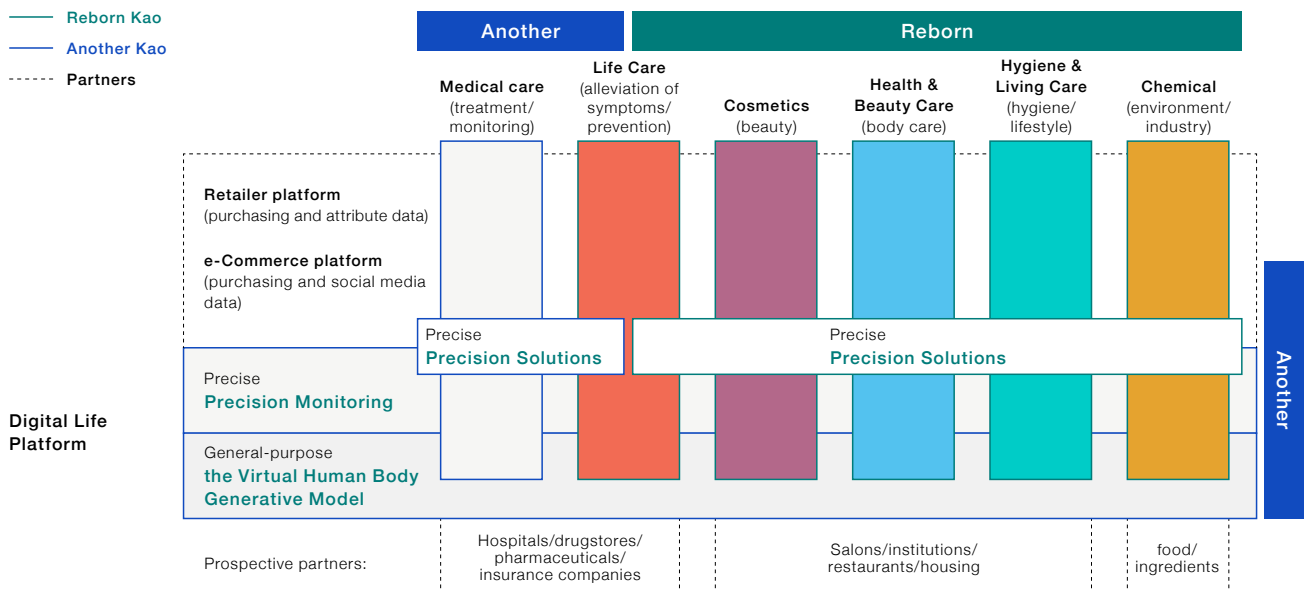
Aiming to Create New Businesses Together with Diverse Partners

Digital Life Platform (DLP) is a place to utilize the framework of Precision Life Care, co-create with diverse partners, and promote Precision Life Care.

DLP enables collaborations with partners with whom

collaboration opportunities had been hard to come by before. Together with the partners, we will launch various new businesses including the digital domain.

Business Transformation Concept and Key Partners Based on Precision Life Care



Partner Companies (as of April 2022, in alphabetical order)



Accelerating the Revitalization of Existing Businesses (Reborn Kao)

● Improving the User Experience (UX) to Strengthen Our Bond with Customers

The fundamental problem facing the consumer business is declining customer loyalty. We believe this is due to an excessive increase in the volume of information and number of products available to consumers. This in turn reflects an inappropriate response to digitalization and diversifying consumer preferences. When the range of options and amount of information facing consumers becomes excessive, the result is choice overload, which can be stressful. When consumers derive less satisfaction from the product selection process, they may also experience less satisfaction with use. The result is lower levels of product loyalty. A vicious cycle has developed in which companies offer more and more choice to consumers, and products that fail to produce satisfaction become increasingly prevalent, leading to increased inventory and waste.

Precision Life Care will have a major impact on this situation.

Based on a deeper understanding of individual customers, we will provide criteria to help them choose the right product. Moreover, we will focus only on making products that truly suit our customers. Positive expectations motivate consumers to actually pick up a product. Products should provide a high level of satisfaction without betraying those expectations, and justify the customer's loyalty over extended periods. Our goal is to improve customer satisfaction and lessen our environmental impact.

● Precision Life Care drives the transformation of our existing business models

Precision Life Care not only provides services to partners through DLP, but also has a role in driving the transformation of Kao's existing businesses. By utilizing Precision Life Care, in addition to strengthening the Kao community and introducing D2C methods, we will transform our existing businesses to loyalty-based marketing and strengthen our relationship with customers.

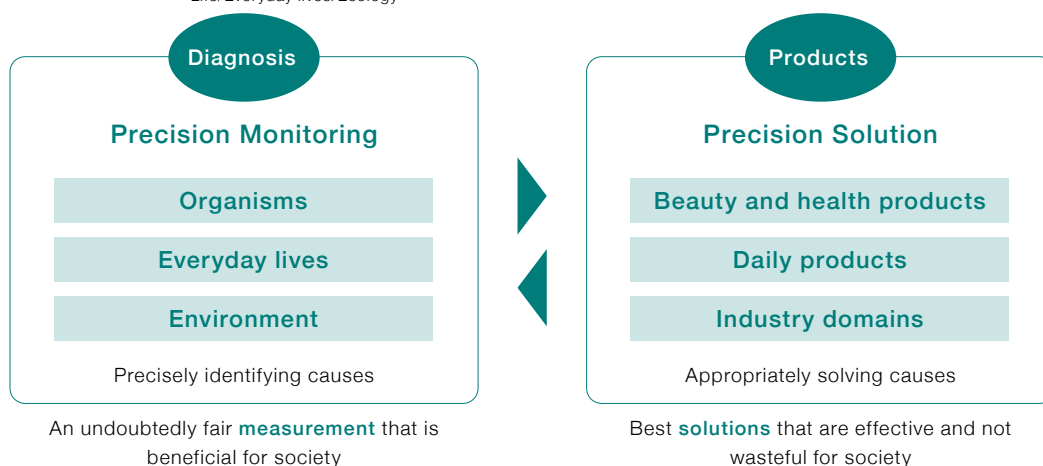
Expand Scope from Living Organisms to Everyday Lives and Environments

We are developing Precision Monitoring technologies for living organisms, everyday lives and environments. For example, we discovered that fish RNA is abundant in river water, and can be useful for ecological surveys. Our goal

for the future is to expand the scope of Precision Life Care in collaboration with various partners, and pave the way a better understanding of, and engagement with, “life,” “everyday lives” and “ecology.”

Future Image of Precision Life Care

Precision Life Care to Propose Optimized Solutions for Unsolved Issues
Life/Everyday lives/Ecology



Road Diagnosis: Synergy with a High-Durability Asphalt Modifier

As highlighted in Zero Waste, asphalt roads can gain popularity quickly because they are easy and do not take long to construct, but unlike concrete pavement, they require repairing after a brief period of time. As transportation for large cargo and traffic increase, roads requiring repair are also increasing every year.

Kao's high-durability asphalt modifying technology strengthens asphalt pavement and slows degradation, such

as deep wheel tracks. Meanwhile, thanks to advances in IT technology, we can monitor how robust roads are, judge when repairs are needed, and determine which roads should be worked on first. By collaborating with partners who own such technologies, Kao will contribute to the maintenance of road infrastructure that supports people's lives and the society more effectively and efficiently.

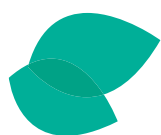
Diagnosis of Agricultural Pathology: Synergy with Environment-Conserving Agrochemicals

The declining farming population has increased the use of automated insecticide spraying and related issues. Launched in China, *KAO ADJUVANT A-200* keeps pesticide spray liquid from evaporating, making it adhere to crops more effectively, keeping them wet. This solves problems unique to drone spraying, such as pesticide scattering and low pesticide coverage on crops.

We believe that by combining this proprietary technology with a monitoring technology that properly and accurately monitors field conditions, we will be able to prioritize fields with pathological risks, further reducing environmental overload and controlling the growth of pests.

Through this business, Kao will deliver more efficient agriculture, higher productivity in food production, and deliver on our purpose to help people live in harmony with nature.





Leave No One Behind Innovation can be for everyone. We won't stop.

Basic Policy

On top of an aging population and an increasing number of people with weak resistance to diseases, the risk of infectious diseases and natural disasters is rising due to climate change. Everyone is impacted. Amid these circumstances, we want to be there not just for healthy people in their everyday lives, but there for people facing illness and the impact of disasters.

There are many things we need to do to leave no one behind. For now, We are focussed on the following four initiatives that leverage our strengths and assets. Our ultimate ambition is to develop social contribution models and businesses that are sustainable, so that our activities, deliver concrete steps toward ensuring no one is left behind.

Stop Pandemic

- Infectious diseases caused by viruses, bacteria, protozoa, etc. are a familiar threat to people.
- We possess numerous technologies and know-how to prevent infectious diseases, and will provide products and services for effective prevention.
- We will collaborate with governments and partners, particularly in Asia at first, on a variety of initiatives to promote penetration among low-income populations.

Appearance Care and Odor Care

- Changes in appearance associated with illness and treatment, such as hair loss or scars, as well as distress caused by odors, can cause psychological distress and problems with self-image. This is especially important for children, who are still developing psychologically.
- We have a great deal of knowledge and technology related to hair, skin, deodorizing and masking. We will provide technologies, products and services to alleviate psychological distress.

Leave No One Behind

Relief from Water Stress

- In developing countries, access to water necessary for sanitation is a serious social issue.
- Even in developed countries, access to water can be difficult, especially during times of disasters. The cost of Japan's water purification systems, especially in underpopulated areas, has been identified as an issue.
- We have formed a business alliance with WOTA Corporation (WOTA). to accelerate social implementation of WOTA's autonomous decentralized water reuse system, to help realize a sustainable, small-scale decentralized water reuse society.

In Everyday Life as well as in Times of Disaster

- Japan is subject to disasters involving typhoons, torrential rains, heavy snowfall, floods, landslides, earthquakes, tsunami and volcanic eruptions.
- The World Meteorological Organization (WMO) announced in 2021 that the number of weather-related disasters worldwide had increased five-fold over the past 50 years.
- We will continue to help those affected by disasters. We will also continue to develop products and services that are useful both in ordinary daily life and in times of disaster.

Safe Repellent Technology Protects Asian Children from Mosquito-Borne Dengue Fever

Mosquitoes carry numerous diseases and are regarded as “the deadliest creatures in the world.” Dengue fever, an infectious disease transmitted by mosquitoes, is a longstanding social problem in Southeast Asian countries and elsewhere, and is spreading worldwide due to global warming.

In June 2021, we launched a joint public-private project with the government of Thailand to prevent the spread of Dengue fever. In February 2022, we launched the Project to Save Future Lives from Mosquitoes to comprehensively promote awareness-raising activities and field testing, as well as research and other activities relating to Dengue fever.

As part of this initiative, 80,000 units of *Bioré GUARD Mos Block Serum*, a product based on a unique technology that renders the skin surface repellent to mosquitoes, were distributed in Thailand for future sale. Part of the proceeds from sales of mosquito-repellent products and services will be donated to funding awareness-raising activities, research activities, and provision of products and services to low-income people at no charge. By combining business and social contribution activities, we will address the challenge of eradicating dengue fever in the target areas, and apply the knowledge gained to initiatives in other areas.



Launched the Project to Save Future Lives from Mosquitoes



Fieldwork in Thailand

Advanced Utilization of Autonomous Decentralized Water Reuse Systems: Collaboration with WOTA

In March 2022, Kao and WOTA announced a business alliance to solve global social issues in the areas of water and sanitation. Kao invested in WOTA and share knowledge and expertise held by the two companies. Specifically, the project will promote sanitation measures and prevention of infectious disease in regions suffering from severe water shortages, and regions requiring disaster support and domestic wastewater recycling in a decentralized model. Our ambition is to deliver sustainable, small-scale decentralized water reuse at a community level.



WOSH water reuse hand-wash stand

Providing Products and Information to Support Life in Times of Disaster

We devote significant effort to support activities in disaster affected areas to help residents maintain their everyday lives as comfortably as possible. When disasters occur, in addition to providing Kao Daily Necessities Sets, we also provide practical information for disaster preparation and cleanliness maintenance on our website.

We are working to develop products that remove stains and odors from hair and clothing without using water in the event of a disaster or emergency. These products will be used onboard the International Space Station, where resources such as water and living supplies are limited.



Cleanliness information on preparing for disasters
www.kao.co.jp/hisaiji/



Space Laundry Sheet



3D Space Shampoo Sheet



Top Dialogue

We Believe

Expectations for the Future and
Dissatisfaction with the Status Quo

Hiroshi Maruyama

Corporate Executive Fellow
Project Professor, Research into
Artifacts, Center for Engineering,
The University of Tokyo
PFN Fellow, Preferred Networks, Inc.

Takuzo Aida

Corporate Executive Fellow
Distinguished University Professor
Tokyo College, The University of Tokyo
Deputy Director, RIKEN Center for Emergent Matter
Science (CEMS)

Yoshihiro Hasebe

Representative Director
President and Chief Executive Officer

Kao's employees are very diligent and mannerly. They could liberate and unburden oneself more.

Ishikura: To start with, could you talk a little about your impressions of Kao?

Aida: I've been working with staff in the R&D Division for many years through my consulting and advisory work. Every meeting with them is really enjoyable, and our discussions always last for two or three hours. Kao's products are smartly made on the face of it, almost seem effortless. In reality however, it is clear that Kao's employees are always willing to go the extra mile. I was also impressed by how many top-notch researchers there are at Kao.

Maruyama: I received my Kao ID badge in November two years ago. That December, I attended the Annual R&D Conference where 3,000 researchers present their findings each year. The presentations were all excellent. The quality of everyone's research was exceptional. I remember thinking how impressive it is that Kao is involved in so many different things. When I heard about their insect repellent that stops mosquitos from landing on people's hands, I was surprised and thought, "Wow, they're even doing things like this." After

that, they put together a great team and I was energized to start collaborating. One thing that stood out from the very beginning about Kao employees is a relentless pursuit of excellence wrapped in extreme courtesy and manners. It seemed to me that they might benefit from being a little less well-behaved. At the company I worked with previously, a lot of employees were eager to be promoted and as such willing to break a few rules. Kao would probably benefit from a little bit of that.

Hasebe: I'm delighted to hear your positive impressions. You are both in independent positions to realistically assess whether or not Kao can make it in cutting-edge areas—not only in manufacturing but also in technological development. If you saw what we doing and carried too much skepticism, I would feel like we probably didn't have a future. We are honored to have you point us in directions for improvement and appreciate your candid advice. I'm looking forward to hearing your honest and constructive feedback today.

Shake off stagnation and take chemistry to the next stage.

Ishikura: What are your concerns and expectations about Japan's present and future?

Aida: I'm putting aside my own shortcomings to say this, but as to whether I am satisfied or dissatisfied with Japan's current situation: I am deeply dissatisfied. I was a university student when Japan's economy was hailed as number one in the world. At that time, I would never have guessed that Japan would enter the period of stagnation it finds itself in today. Our mindset changed from "the pie will be bigger next year, so let's think about what to do next and not worry about how to divide the pie," to "the pie isn't going to get any bigger, so let's think about how to divide it more carefully." We begin to obsess the range of decisions to divide the pie rather than grow the pie. This situation is extremely disappointing for me. In many ways, we have to think about how we can regain the Japanese mindset of earlier generations. We have entered an era in which many things, expected and unexpected, can happen. There is the COVID-19 pandemic now as well as a war that amongst many things is driving up fuel prices. The environment is also an extremely critical issue. To cope with the sudden need to think about so many different

"It's imperative that companies and individuals change their mindsets on many different issues."



Takuzo Aida
Corporate Executive Fellow

things, it's imperative that companies and individuals change their mindsets.

Hasebe: I'm from the same generation as Dr. Aida. When I was a student, polymer chemistry was a respected field that transformed petroleum into different kinds of products. At Kao too, polymer chemistry is essential for making all kinds of products. Nowadays, it's as if some kind of switch was flipped, and things once done for the good of society are now disregarded, particularly with respect to plastics. As a polymer scientist myself, I find this situation extremely disappointing. Polymer chemistry, as previous generations developed it, is indeed at a major turning point for advancing to its next stage, but that doesn't mean we should reject it outright. I like to say, "Development, not growth, is critical for the next era." My goal is to shift the direction of Kao's business from "using many chemicals to make many products" to "using fewer chemicals longer and more prudently." To achieve this, the base of our business—chemistry—

must also evolve from a field that produces waste to a field that practices sustainability as it contributes to society. I believe that the supramolecular polymers and supramolecules that Dr. Aida is studying are key technologies for taking chemistry to the next level.

Aida: Over the years, several restrictions have been placed on research. In our field, basic and applied research are described as opposing axes. However, when you decide you want to pursue some kind of applied research, you often find that there isn't sufficient basic research to work from. This is an opportunity for those of us in academia. People who want to do basic research shouldn't do meaningless research, rather it should be tackled in a way that enables meaningful development. That will give us the opportunity to go in a new direction and make meaningful scientific advancements. I hope my own research will lead to the creation of new materials that pave the way for the future.

Just when I thought, "I'm in trouble now," new ideas emerged.

Maruyama: Sometimes research agendas have to change as society changes. It's very important to see this as an opportunity. But there are some difficulties as well. I specialize in computer science, and there is a debate about whether to introduce governance on things like machine learning that are expected to have a major impact on society. By some measures, I think that kind of activity could stifle innovation.

Aida: At an earlier stage in life, I think I also responded to change by thinking, "This is chaos." But with age and experience I gained perspective. I have many examples where just when I was thinking, "I'm in trouble," I would suddenly have inspiration for a new idea. This might seem a little over-simplistic for me to say, as my field is not business, but after repeated similar experiences I knew "it was time to change to a more positive mindset."

Hasebe: Maruyama-san, when you say "governance" are you referring to handling personal information and data?

Maruyama: Yes. I'm referring to the potential for machine learning to be used to manipulate information or control people.

Hasebe: As that situation continues to unfold, you deliberately chose from the beginning not to handle personal information in your Virtual Human Body Generative Model, right?

Maruyama: Yes, that's right. Many people around the world think that it's not possible to make good models without using personal information, but that's not really the case. We use a statistical model, so we don't need personal information. In that way, new restrictions can also become new opportunities to a certain extent.

Make better rules and build new frameworks to support them.

Maruyama: Something that surprised me when I came to Kao was that there is a team called "Regulatory Science" in the R&D Division that specializes in influencing change to regulations to enable the development of new technologies.

Hasebe: The head of that team is a former university

teaching staff member. He joined Kao because he believed, "we needed to evolve our regulations if we want innovation." At first, I wondered, "Can you even do that?" But he said, "If we change the rules, we can make progress in our work, and help society at the same time."

“You can make full use of computer science’s advances, but, ultimately, human creativity is vital.”

Hiroshi Maruyama
Corporate Executive Fellow



And that’s exactly what he’s subsequently done. What surprised me was that while I was busy following the rules, he was making better rules and building new frameworks to support them. It will save businesses billions of yen

by eliminating various man-hours, and it’s also good for society. When I explained that to Maruyama-san, he said, “Things like following rules and making rules should be handled by companies.”

We need real people, even as computer science advances.

Hasebe: Some people think that harnessing the power of deep learning will make all experimentation meaningless. I disagree. Computer science has undeniable upside, but only humans can push ideas to levels beyond common sense. Five years ago, I rejected an offer to work with a company on materials informatics because they were suggesting that “Experimentation won’t be necessary in the future.” What do you think about my decision to turn that company down?

Maruyama: I specialize in machine learning, which is essentially statistics. The Virtual Human Body Generative Model that we’re making now also follows that idea. It doesn’t know anything about what’s going on internally, or grasp semantics and nuance, but the patterns it can rapidly identify and deliver are extremely valuable. The same is true for materials informatics. Namely, it can look at past phenomena for insight, but it doesn’t know about completely new things. This means there are limits to computer science and things that can only be done by humans. The machine can understand patterns, but human creativity is

still needed to understand what mechanisms are at work internally. Machine learning limits may of course change in the future because it is possible that what occurs in the human brain is mechanical in some sense. But at this stage, comprehension and creativity requires real humans.

Aida: When developing proposals in my field, we use computer science to check if the proposal is scientifically sound. Currently, for virtually all research, our proposals don’t pass without the cooperation of a simulation professor. Before finalizing a proposal, I asked the professor, “Can you infer what’s happening?” The professor said, “I can’t. But I can find out how close your proposal’s content is to the key essence of the issue.” I was relieved to hear that but also somewhat disappointed.

Hasebe: I’m relieved to hear that you both share my point of view that it is important to optimise the use of computer science within established frameworks, but ultimately, creating the future sits in the hands of human beings.

Build an environment for mutual inspiration and dynamic exchange between companies and universities.

Maruyama: I think about this a lot, but the direction of crossover between academia and industry in Japan is basically a one-way street. A lot of people cross over to academia from companies. I think this number is particularly large in the field of computer science. Conversely, the path to industry from academia is virtually non-existent. I believe this has resulted in lost opportunities for talent development.

Aida: I agree with Maruyama-san. Currently, a student may be transferred to a company for three years straight, but if they could come and go more dynamically between the company and the university lab every two or three days, I think there would be more chances for mutual inspiration. For example, we could have meaningful exchange through a lab's journal club or something similar. I have labs in RIKEN and the University of Tokyo, and we hold an online, hybrid journal club. I think company employees would learn a lot of inspiring things if they could be part of those discussions. There are also cases where the reverse is true, but, unfortunately, it's not possible to share company

information externally, so that's not really feasible. I've begun to wonder recently if there may be a new way for universities and companies to engage.

Hasebe: I agree that such crossover is very important. There may only be a few people who switch from universities to companies, but, like the case I mentioned earlier, we have a number of employees at Kao who came from universities and have been major powerhouses here. Also, I believe that we should make it possible for employees who want to study again to return to university. We can extend the opportunity to employees who have done good work to study at range of different universities. At most, 20 or 30 percent have found that to be extraordinarily motivating. And that's enough to inspire others around them. Someone else might think "I want to go too!" and another might think "I'll follow that person!"

Maruyama: I agree. A lot of people in Japan say they don't want to do something if it doesn't have a 100 percent success rate. That needs to change. 30 percent uptake on such opportunities is good.

Find 20 points in outstanding areas rather than aim for 80 points or higher in everything.

Hasebe: We sent one of our employees to work with Dr. Aida in the past. He came back and found good work that they wanted to do that would also contribute to society.

Now he is working on that very enthusiastically.

Aida: I'm very happy to hear that. It's really about people, isn't it? It doesn't matter if we're looking at universities or industry.

"In fostering people's growth, it's important to identify each employee's individual strengths and figure out how best to develop them."

Yoshihiro Hasebe

Representative Director, President and Chief Executive Officer





Hasebe: I really agree. In the beginning, Maruyama-san commented that Kao employees are very polite and incredibly diligent, and could stand to be a little less well-behaved. It might be true that the corporate culture at Kao somehow makes employees feel like they have to be

80 points or higher in everything. We must work harder to identify each employee's individual strengths even for someone with only 20 points in other areas, and figure out how best to develop them.

Become a company that uses its collective intellect to advance into new fields.

Ishikura: Lastly, please tell us more about your expectations for Kao including any tough messages we need to hear to help motivate us.

Aida: Kao is a chemical company, and, it probably would continue to exist even if it didn't change anything. But I would like Kao to view the current headwinds against chemistry as an opportunity. Kao doesn't just employ chemists—a lot of employees with different areas of expertise are contributors at Kao. I would like to see Kao use the full potential of its collective intellect and leapfrog into new fields.

Maruyama: I believe the lack of mutual crossover between industry and academia is a huge problem. I would like Kao to actively engage in solving this issue.

Hasebe: Thank you for your candor. In my position, I need to think about fostering people's growth at Kao, but I also feel

my position responsibility for helping to cultivate people in society as well. When fostering growth on the job experience and formal learning programs are important, and we are set up to encourage it. I really would like to thank Dr. Aida and Maruyama-san. With your collaboration and guidance, our employees have had the opportunity to engage in and deliver cutting-edge research. I see expanding this approach to leverage individual strengths by removing false divisions between the corporate sector and academia. It will be through these innovative cross sector partnerships that Kao will advance chemistry to the next level and as such, advance Kao to a whole new level of sustainable performance. I will strive to meet your expectations and certainly hope that you will continue to work with Kao for a long time to come.



Facilitator

Yasuhiro Ishikura
Executive Officer
Mid-Term Management
Strategy Division

It was insightful for me to listen to the dialogue between the two executive fellows and our President & CEO. They are at the forefront of their professions in business and academia, as well as in the areas of chemistry and computer science. Though they have diverse and strong perspectives, I sensed genuine warmth and wonderful empathy for the importance of people to success. I am confident that we will continue to receive candid and highly constructive feedback from them into the future. Indeed, we will do our best to meet their expectations.

Chapter 3

Our Core of ESG-Driven

Promote Our Social Contribution and Sustainable Development

Kao's ESG Strategy, the Kirei Lifestyle Plan

Basic Policy

In April 2019, Kao announced the Kirei Lifestyle Plan (hereinafter “KLP”), our ESG Strategy, and began a shift toward ESG-driven management. In accordance with our vision of “protecting future lives” and promoting “sustainability as the only path” under K25, we expressed our strong intentions for ESG-driven management. With escalating environmental issues, population aging, the protracted pandemic and the rise of digitalization, the world is changing ever more rapidly when it comes to ESG. Under our ESG strategy integrated with management strategy, we implement the KLP taking in consideration societal changes and demand in order to realize a Kirei World in which all life lives in harmony.

Kao's ESG Strategy has been developed and designed to serve consumers' needs, behaviors and desire to create sustainable lifestyles. We define these lifestyles as the Kirei Lifestyle, and we established the KLP to contribute to it. The KLP includes our vision and three commitments, namely “Making my everyday more beautiful,” “Making thoughtful choices for society,” and “Making the world healthier & cleaner.” “Walking the right path” is the foundation that supports these commitments. Kao Actions, our priority action themes, are set for each of these, and we are working to achieve our ambitious goals to be accomplished by 2030.

Kao's ESG History

- 2009 Kao Environmental Statement formulated, placing ecology at the core of management
- 2019 The KLP formulated, announcing a major shift to ESG-driven management
- 2020 K25 formulated, placing ESG at the core of management

Kao's ESG Vision

A Kirei lifestyle means living a beautiful life inside and out.

A Kirei lifestyle is full of compassion.

Where making your own life clean and beautiful never compromises the beauty and cleanliness of the world around you.

A Kirei lifestyle is enjoying today, with the peace of mind that those joys will be there tomorrow. It's the chance to express who you truly are, with the confidence that you are walking the right path.

Even in the smallest, everyday moments.

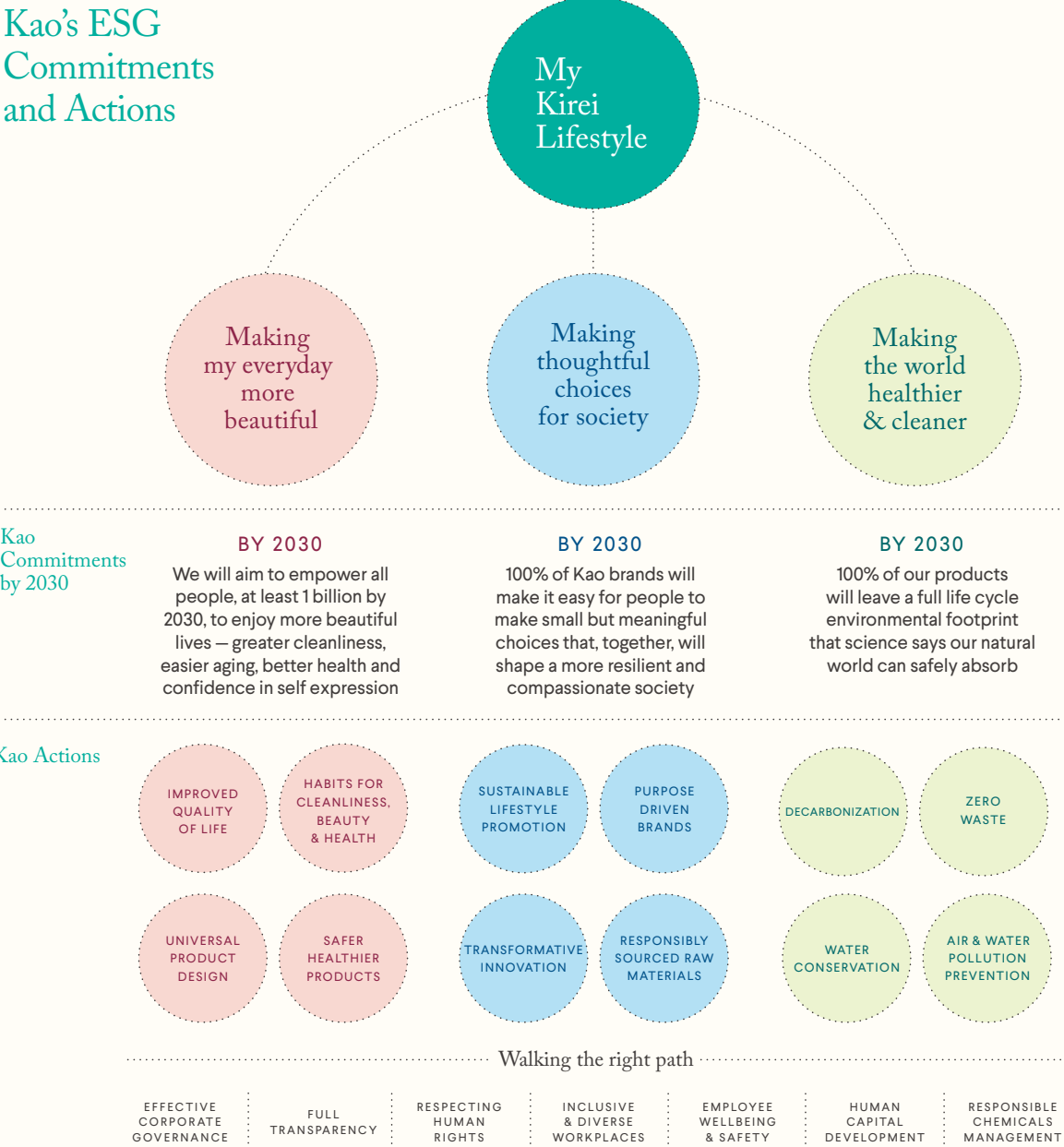
That's why at Kao, everything we do is in service of this lifestyle.

It's why we do what is right, not what is easy.

We put our innovation and imagination to the task of enriching lives by finding ways for people the world over to live the Kirei lifestyle.

Management

Kao's ESG Commitments and Actions



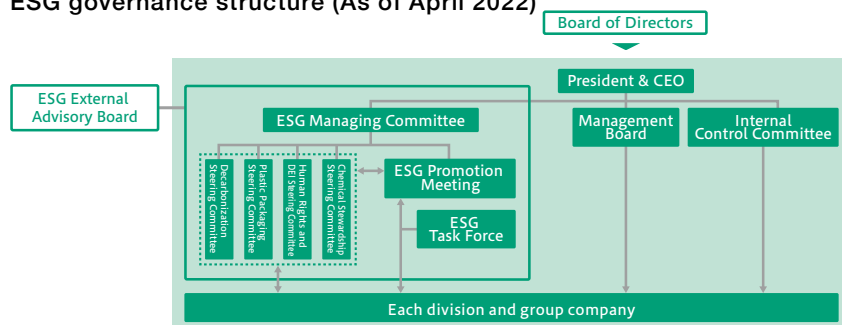
ESG Governance Structure

We are building an ESG governance structure to realize more flexible and robust ESG activities so that we strengthen our resilience to the major changes taking place globally and ensure expansion of business opportunities. Characteristics of this structure include an organization with outside committee member participation that functions to provide oversight and advice, and the swift and targeted implementation of management decisions broken down into innovation and initiatives. Our ESG governance structure functions under the Board of Directors and consists of the





President and CEO and subordinate organizations.

The ESG Steering Committees were newly established in 2022 to ensure that actions are taken reliably and quickly for initiatives targeting priority issues. The topics of these issues are decarbonization, plastic packaging, human rights and DEI and chemical stewardship. These are headed by executive officers, and each steering committee will coordinate with the ESG Managing Committee and have the ability to make suggestions to divisions and group companies.

ESG governance structure (As of April 2022)



ESG External Advisory Board Members

	Founder, Inspired Companies		CEO, Ethical Association
Lisa MacCallum		Rika Sueyoshi	
	Chairperson, ESG Indonesia		Director of Communication and Public Affairs, Der Güne Punkt-Duales System Holding GmbH & Co. KG
Jalal Ramelan		Helmut Schmitz	

● ESG Managing Committee

The ESG Managing Committee deliberates and decides on the overall direction of activities related to our KLP. The committee is chaired by the President and Chief Executive Officer, and its members include Senior Managing Executive and Managing Executive Officers. These members push forward our KLP by developing policy and strategy for Kao's ESG activities, making final decisions on investments, identifying issues, risks and opportunities and confirming the progress of activities.

● ESG External Advisory Board

By submitting reports and suggestions in response to queries from the ESG Managing Committee, the ESG External Advisory Board ensures that an external perspective is reflected in the company's management. To enable Kao to realize world-class plan formulation and implementation as it works toward achieving a sustainable lifestyle for consumers, the Board provides information and opportunities for collaboration with external partners, and also offers advice.

In FY2021, the Board praised Kao's promotion of efforts to strengthen collaboration with multiple stakeholders on the

Main Items Deliberated on and Approved by the ESG Managing Committee in FY2021

- Deliberate and approve the revised draft of the mid- to long-term targets for the KLP
- Examine the proposals from the ESG External Advisory Board
- Deliberate and approve setting up ESG Steering Committees
- Deliberate and approve proposals for ESG investment criteria and operations
- Deliberate and approve ESG investment projects
- Review of the progress made on each Kao Action in the KLP

social implementation of plastic waste recycling. However, the Board did also recommend that Kao should undertake more proactive communication, to make it easier for consumers to understand the company's ESG initiatives.

Proposals and Actions from the ESG External Advisory Board in FY2021

- Proposals regarding expectations for and risks to Kao based on the current situation in society
- Review and evaluation of the progress made on the KLP

Initiatives for Responsibly Sourced Raw Materials

As a member of The Consumer Goods Forum (CGF), a global network of consumer goods manufacturers and retail companies, we support the CGF's resolution to eliminate forced labor and the Priority Industry Principles of "Every worker should have freedom of movement," "No worker should pay for a job," and "No worker should be indebted or coerced to work." Thereby, for Responsibly sourced raw

materials, which is one of the 19 KLP actions, we procure raw ingredients with considerations for resource protection, environmental conservation, safety, human rights and other factors, and strive to procure more sustainable raw materials by taking steps to ensure traceability and dialogue with our suppliers. Specifically, we develop the following initiatives.

● Announcement of Supply Chain ESG Promotion Guidelines

In August 2021, we announced the Supply Chain ESG Promotion Guidelines with the objective of reducing risks to the supply chain and our reputation. Based on these guidelines, we collaborate with suppliers to contribute to ensuring traceability throughout the entire supply chain and solving social issues such as resource and environmental protection, safety and human rights issues. Furthermore, we identify risks pertaining to social issues in the supply chain and implement third-party audits at vendors.



Situation at vendor summits

● SMILE: Support Program for Small Oil Palm Farms in Indonesia

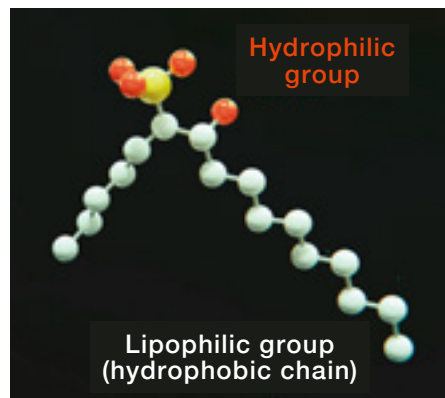
While initiatives for large plantations are going forward to build sustainable supply chains for palm oil, on small oil palm farms, which account for approximately 30% of production in Indonesia, productivity is low and there are various other issues including poverty and poor living environments. Kao, in collaboration with Apical Group and Asian Agri, launched SMILE, a program to help approximately 5,000 small oil palm farms by 2030. We will provide technical assistance to improve productivity and support the acquisition of certification for sustainable palm oil. Furthermore, as a unique initiative, we provide our *ADJUVANT* series, which are functional spreaders, to improve productivity, increase revenue through reduced usage of pesticides, and reduce the environmental impact.



"SMILE" activity in a palm farm in Indonesia

● Won the Minister of Economy, Trade and Industry Award at the 20th Green & Sustainable Chemistry (GSC) Awards for Bio IOS, a sustainable detergent base

Bio IOS is a superior detergent base in terms of energy efficiency and reduced water pollution due to its powerful cleaning action and rinsing properties as well as in terms of responsibly sourced raw materials. The main ingredients of surfactants used in general detergents are lauric oils and fats with 12 and 14 carbon atoms, which account for only 5% of the total vegetable oils and fats. Bio IOS, on the other hand, is mainly composed of olein-based oils and fats with 16 and 18 carbon atoms, which account for 95% of the total vegetable oils and fats, and furthermore uses the solid parts of these, which are less likely to compete with food applications. In recognition of its innovation as chemicals that are gentle to people and the environment and support the development of a sustainable world, we received the Minister of Economy, Trade and Industry Award in the 20th Green & Sustainable Chemistry (GSC) Awards in FY2021. Bio IOS contained in our *Attack ZERO* laundry detergent product.



Bio IOS molecular structure model

Kao Actions and Targets in the ESG Strategy

Kao Actions	Indicator	Results			Mid- to long-term targets	
		2019	2020	2021	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 2023 ⁴	1 billion	2030
Improved quality of life	The number of products which contribute to a comfortable, beautiful, healthy life and touch the heart of people	—	4.7 billion	4.5 billion	7 billion	2030
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)	30 million	34 million	45 million	0.1 billion	2030
Universal product design	% of new or improved products that meet Kao’s Universal Design Guidelines	(44%) ^{1b}	(53%) ^{1b}	98% ³	100%	2030
Safer healthier products	% of targeted ingredients of concern on which views are disclosed	—	31%	56%	100%	2030
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 2023 ⁴	100%	2030
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)	2.61 million	3.07 million	3.10 million	0.1 billion	2030
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 2023 ⁵	100%	2030
Transformative innovation	Cumulative number of proposed or realized products with big positive impact on lifestyles (cumulative since 2019)	2	3	4	10 or more	2030
	Cumulative number of proposed or realized businesses and systems with big positive impact on lifestyles (cumulative since 2019)	—	1	3	10 or more	2030
Responsibly sourced raw materials	% of certified paper products and pulp for consumer products	91%	94%	96%	100%	2025
	Confirm traceability to small oil palm farm	Completed for large plantations	Completed up to own farm managed by oil and fat supplier	Completed up to own farm managed by oil and fat supplier	Finish	2025

*1 New target

*2 Change of indicator and target value

*3 Change of definition

*4 Definition of KPI decided in 2021

*5 Reviewed detailed 2021 requirements

*6 Value based on former definition

Kao Actions	Indicator	Results			Mid- to long-term targets		
		2019	2020	2021	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 2023 ⁴	100%	2030	
	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	CDP Climate Change A, Water A, Forest (Timber) A, Forest (Palm Oil) A	Highest evaluation level	Every year	
Decarbonization	% reduction in absolute full lifecycle CO ₂ emissions (Base year: 2017)	4%	4%	4%	22%	2030	
	% reduction in absolute scope 1+2 CO ₂ emissions (Base year: 2017)	9%	15%	20%	28% ²	2025	
					55%	2030	
	% of renewable energy in electricity consumption	21%	28%	38%	100%	2030	
Zero waste	Quantity of fossil-based plastics used in packaging ¹	—	—	104 thousand tons ¹	Will peak and begin to decline ¹	2030 ¹	
	Quantity of innovative film-based packaging penetration for Kao and others per annum	—	7 million ³ (1 million) ⁶	11 million ³	300 million	2030	
	% of products which have eliminated eye-catching plastic stickers	—	73%	100%	100%	2021	
	% of recycled plastic in plastic packaging ¹	—	—	1%	Plan to disclose in 2023 ¹	2030 ¹	
	Practical use of innovative film-based packaging made from collected pouches	—	Continued development	Continued development	Products launch	2025	
	% of recycled plastic used in PET containers (Japan) ²	—	—	19%	100% ¹	2025 ¹	
	Of the waste generated from Kao sites*, ratio of waste that cannot be recycled * Beginning with production sites ²	—	—	9.1%	Zero (less than 1%)	2030	
	% reduction of discarded products and discarded sales promotion materials (Base year: 2020) ²	—	—	14%	95% ¹	2030 ¹	
	Water conservation	% reduction in full lifecycle water use per unit of sales (Base year: 2017)	6%	-5%	-5%	10%	2030
		% reduction in full lifecycle water use per unit of sales in regions with water scarcity (Base year: 2017) ²	—	—	Plan to disclose in 2023 ⁵	40%	2030
Air & water pollution prevention	% of factories which disclose VOC and COD emissions	VOC 0% COD 100%	VOC 0% COD 100%	VOC 65% COD 100%	100%	2025	
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 (World's Most Ethical Companies® selection)	Highest evaluation level	Every year	
	Number of serious compliance violations* per annum * Compliance violations that have a significant impact on management and significantly damage corporate value	Zero	Zero	Zero	Zero	Every year	
Full transparency	% of consumer product brands for which people can easily access complete ingredients information	—	9% ³ (8%) ⁶	12% ³	100%	2030	
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%	Internal: 100% Suppliers: 60% Contractors: 3%	100%	2030* * Suppliers: 2025 ²	
Inclusive & diverse workplaces	Affirmative answer rate to a question on “Inclusion and Diversity” on our employee engagement survey ²	—	Did not conduct	Start from 2022	75%	2030	
	% of female managers	29.4% (% of female employees: 49.6%)	28.8% (% of female employees: 49.7%)	30.2% (% of female employees: 50.5%)	Same as % of female employees	2030	
Employee wellbeing & safety	Lost time accident frequency rate (per million hours worked)	0.78	0.53	0.65	0.1	2030	
	Average number of lost long-term work days (days/people) * Starting from Japan	129	146	197	105	2030	
	Ratio of employees who have lost long-term work days per one thousand employees * Starting from Japan	0.198	0.185	0.232	0.12	2030	
	Affirmative answer rate to a question on “Degree of vitality” on our employee engagement survey ¹	—	Did not conduct	Start from FY2022	85% ¹	2030 ¹	
Human capital development	Affirmative answer rate to a question on “Organizational culture in which employees are encouraged to take on challenges” on our employee engagement survey ²	—	Did not conduct	Start from FY2022	75%	2030	
	Affirmative answer rate to a question on “Workstyle of effective and flexible” on our employee engagement survey ²	—	Did not conduct	Start from FY2022	75%	2030	
Responsible chemicals management	% of chemical products and raw materials with disclosed information of benefits and safety to ensure safe usage for our customers	—	—	14%	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	—	—	96%	100%	2030	

Human Capital Strategy

Encouraging Each Employee to Be Unwavering in Tackling Challenges in Earnest

Basic Policy

To make our company stronger, we need the drive and enthusiasm of engaged employees. Kao endeavors to become an organization with diverse employees who respect and motivate each other and earnestly take on challenges with great ambitions.

This is why we revised The Kao Way last year as a challenge- and future-oriented way forward. We created an environment to support the individual growth and career development of employees, introducing a system to support this mission, promoting on-site initiatives carefully, and introducing a compensation system and a recognition

system to acknowledge results properly.

These were designed based on the basic concept of sustainable growth of our employees as well as of the company. Essentially, we run a cycle where “employees are asked to take on tasks, are encouraged to take on challenges and raise challenging goals themselves, share their struggles through conversations, and are fully appreciated for the results they achieve.”

Through these initiatives, we will achieve the objective to maximize the power of employees and the target of doubling the productivity of our business activities raised in K25.

Approach for Human Capital Development to Maximize the Power and Potential of Employees

Policies at the base of human capital development	The Kao Way which is challenge- and future-oriented <small>Revised in June 2021</small>		DE&I to utilize diversity based on integrity	
Environment for employee growth	Support for Individual Growth through self- education and inspiring each other	Career Development for spontaneous and proactive challenges	Development of Working Environment for efficient and flexible work styles	Lifelong Career Advancement through full use of specialist skills
Systems that encourage challenges	OKRs which is Growth- and collaboration-oriented <small>Introduced in January 2021</small>		0★1 Kao for bottom-up proposal <small>Introduced in July 2021</small>	
Operation resilient and flexible	Respecting Conversations to stay close to people in the field and encourage growth			
Encouragement for sustainable vitalization	Compensation System that is fair and growth-oriented		Recognition system to maximize motivation	
Our targets as a corporation	Double the productivity of our business activities			

Introduction of “OKRs” Suitable for Kao

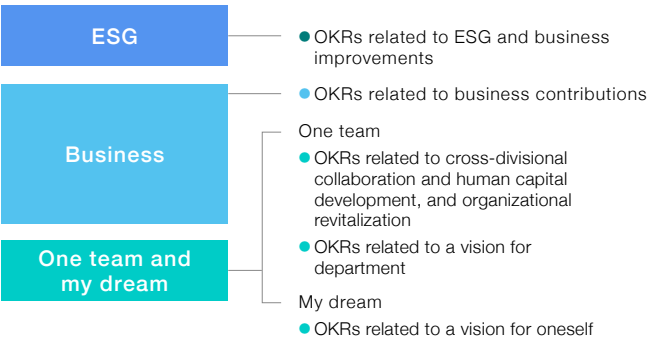
Objectives and Key Results (OKRs)—introduced in January 2021—is a system to encourage employees to form one team where they learn from each other, help each other and rely on one another as well as to motivate each employee to be more willing to tackle ambitious challenges. OKRs

has become a common language, and the incentives and a corporate culture to maximize the power and potential of employees got off to a favorable start, as major challenges in various areas and collaboration across workplaces and borders have been initiated.

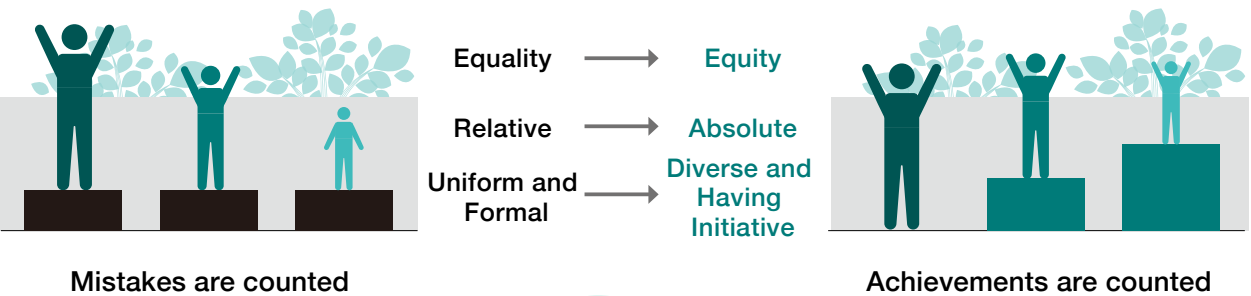
Objectives and Key Results (OKRs)

Key Performance Indicators (KPIs), which Kao formerly used as the part of performance management, were predicated on aiming for 100% achievement of targets. This tended to result in the establishment of realistic final goals 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, regard an achievement rate of about 60% as having reached the minimum goal, while 100% achievement is seen as having generated innovative results.

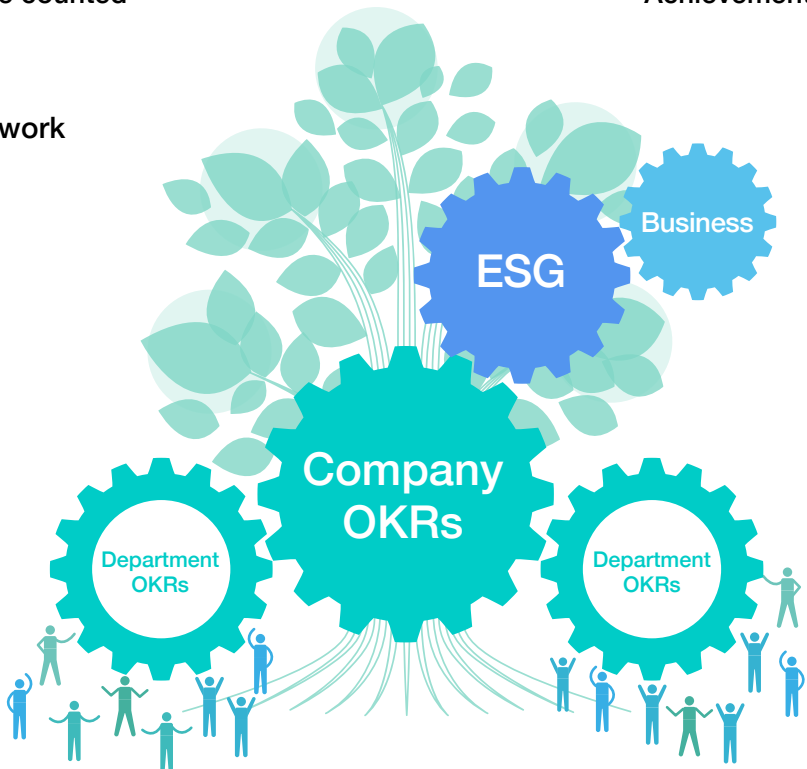
Three Perspectives of OKRs



OKRs to promote Human Resource Development unique to Kao



The OKR Framework



Introduction of 0★1 Kao as a System of Bottom-up Proposals

0★1 Kao was introduced in July 2021 and is an open recruitment program for revolutionizing ideas (covering new business, products, services and companywide structural reform activities), which supports employees tackling challenges that go beyond their job descriptions and roles. In the half year since its introduction, close to 100 ideas

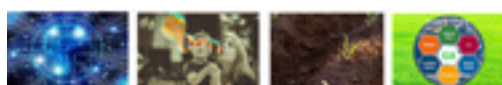
have been created and there has been a continuously lively exchange of ideas for the realization of a majority of them. Since the first idea meeting with the President was held in October 2021, 27 themes were proposed at these meetings within half a year. Of which 19 proceeded to the next step, including getting investment approval.

Main Discussion Topics: February 2022

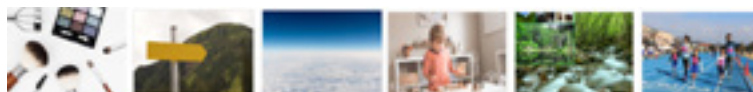
New Products, Services and Business



New Structure, System and Program



Other Proposal



Career Development Based on Spontaneous and Proactive Challenges

Kao encourages each employee to exercise their potential to the full through various career development initiatives. In FY2021, there were assignments of individuals not just within department and affiliates, but across approximately 750 different department and affiliates, highlighting the

wide-ranging opportunities for career development we offer to our employees. We have also been sending more employees temporarily to relevant public service and industry organizations so that their skills and expertise can be used to solve social issues.

Support for Individual Growth through Self-Education and Inspiring Each Other

We are also introducing and expanding on-demand learning programs for employees to learn more about the field of their choice according to their individual interest and work. Through such platforms, we provide learning opportunities

fairly to employees who are willing to take on the challenge, supporting them in developing their skills and careers on their own initiative.

Development of an Efficient and Flexible Working Environment

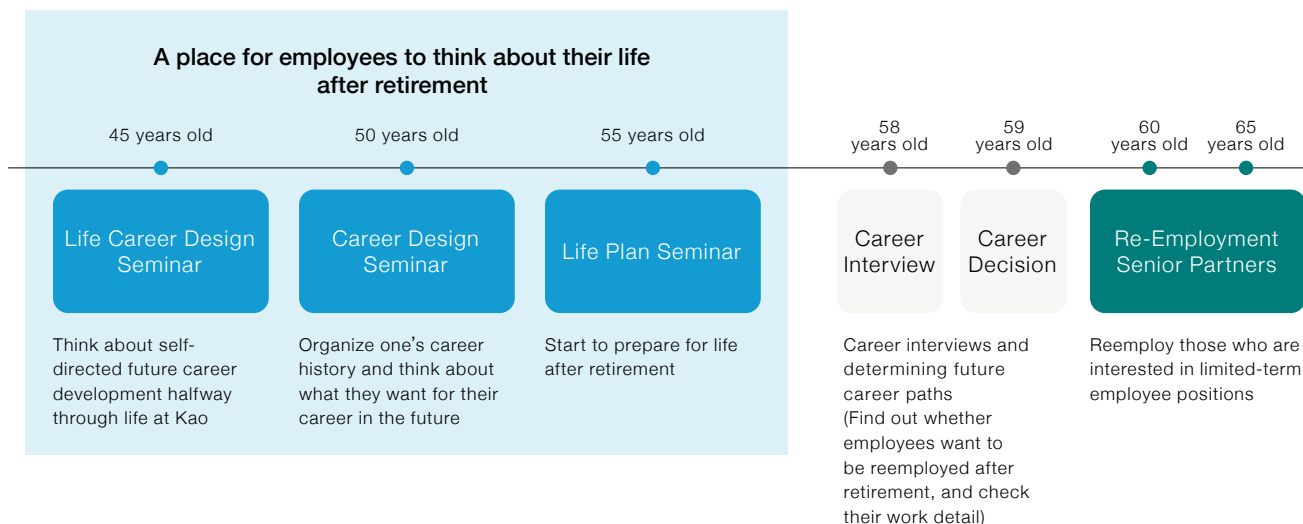
We have promoted the development of work styles that overcome time constraints, such as the discretionary labor system for professional worker and flextime. Due to the impact of the COVID-19, we have also been incorporating remote work such as teleworking and diversifying not only work hours but also locations and environments. We also create an online environment and digitize various work processes for meetings, business discussions, hiring and training, presentations and forums. In addition, we have been transforming the past layout of our offices that assumed work was done while physically there to one that encourages flexible work styles that better demonstrate employees' creativity.



Lifelong Career Advancement through Full Use of Individual Expertise

Even prior to retirement, we encourage employees to develop awareness so they can have a lifelong career beyond the age of 60 and enjoy life after retirement. We also offer internal and external post-retirement opportunities to

senior employees to utilize the experience and expertise they developed at Kao. 86% of employees from the domestic Kao Group have continued to work with our post-retirement re-employment program.



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

I provide objective evaluations of Kao's initiatives and support executives in taking an aggressive approach to challenges.



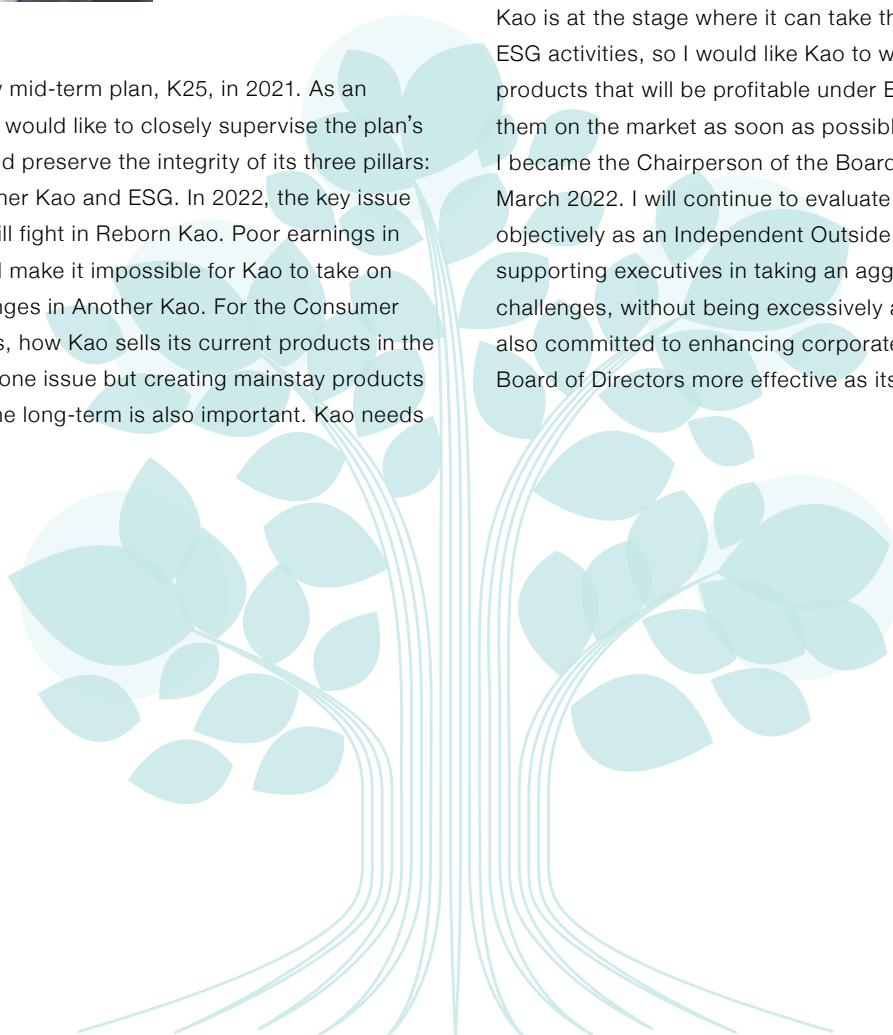
Osamu Shinobe

Outside Director
Chairperson of the Board of
Directors

Kao began its new mid-term plan, K25, in 2021. As an Outside Director, I would like to closely supervise the plan's implementation and preserve the integrity of its three pillars: Reborn Kao, Another Kao and ESG. In 2022, the key issue will be how Kao will fight in Reborn Kao. Poor earnings in Reborn Kao would make it impossible for Kao to take on substantial challenges in Another Kao. For the Consumer Products Business, how Kao sells its current products in the short-term will be one issue but creating mainstay products and services for the long-term is also important. Kao needs

to fundamentally reconsider its sales methods and products from the customer's perspective and also revolutionize its marketing strategy by combining the use of digital transformation with optimal value communication. Kao must develop its businesses outside Japan based on the unique traits of each region rather than treating them as a uniform group. Kao also needs to conduct M&As that align with its growth strategy for business expansion outside Japan. The Board of Directors will have to also vigilantly monitor these activities to ensure they align with ESG perspectives. Kao is at the stage where it can take the next step in its ESG activities, so I would like Kao to work on developing products that will be profitable under ESG criteria and place them on the market as soon as possible.

I became the Chairperson of the Board of Directors in March 2022. I will continue to evaluate Kao's initiatives objectively as an Independent Outside Director while also supporting executives in taking an aggressive approach to challenges, without being excessively afraid of failure. I am also committed to enhancing corporate value by making the Board of Directors more effective as its chairperson.



I will continue to monitor activities so that Kao can deliver differentiated value with speed.



Chiaki Mukai

Outside Director

Each meeting of the Board of Directors features free and open discussions. In 2021, we had a constructive exchange of opinions as the responsible persons presented the key themes of K25, including initiatives on PR strategies, the Digital Life Platform, and Human Capital Development as well as updates on R&D, which is Kao's driving force. My stance on executives' proposals is always to help get the ball rolling, but I also carefully consider each proposal's feasibility by examining the appropriateness of its timeline for the given objective, risk

factors in the global landscape, the public's receptiveness, and the scientific basis for product statements.

Kao offers an extraordinarily broad range of products. In addition to developing each brand individually, Kao should take a step toward showing people how their lives will improve by using all of Kao's products and develop more cross-sector products, as it did with Protect JAPAN and MyKirei by KAO in the U.S. I would like to help Kao showcase their collective strength by using new approaches that only Kao can use. With regards to human capital, Kao is moving in a good direction by increasing diversity and promoting young talent, but still has to increase motivation by revising evaluation criteria and further develop discussions on human capital strategy that is devised by backcasting from an ideal picture. Kao has extremely good seeds. I believe that Kao's future challenges will include being able to quickly convert these seeds into products and get them on the market, as well as sending a clear message to consumers about their differentiated value. As an Outside Director, I will continue to vigilantly monitor Kao's activities while lending a hand to support executives.

I pay close attention to changes brought about by K25 and play a part in conducting appropriate governance for both defensive and offensive objectives.



Takahiro Nakazawa

Outside Audit & Supervisory Board Member

I have attended every meeting of the Board of Directors and the Audit & Supervisory Board since becoming an Outside Audit & Supervisory Board Member in 2020. All participants freely engage in lively and substantive discussions at the meetings of the Board of Directors, regardless of whether they are internal or external members, or Directors or Audit & Supervisory Board Members. Kao's Inside Directors with executive duties listen earnestly to the opinions of Outside Directors and Outside Audit & Supervisory Board Members, and have processes in place for incorporating the content of our discussions into their management. I believe Kao is thorough in its application of corporate governance, and their

willingness to utilize outside perspectives in their management is what makes Kao's Board of Directors function so well.

Audit & Supervisory Board Members conduct audits of internal controls, which are a part of corporate governance. At each audit site, we conduct audits, interview departments responsible for the second line, and hear how they are responding to current issues, incidents or accidents. We fulfill our role in defensive corporate governance by stopping problems before they start and, when problems actually occur, identifying root causes and thoroughly investigating each problem to prevent recurrence.

The content of the 2021 meeting of the Board of Directors was appropriate for being K25's launch year. We heard thorough reports on the progress of Reborn Kao and Another Kao. From 2022 onward, we can anticipate even more changes while pursuing new incarnations of Kao through Reborn Kao and Another Kao. I would like to keep a close eye on changes in risk management and internal controls that are caused by K25's reforms, not only for defensive corporate governance but for offensive as well. As an Audit & Supervisory Board Member, I hope to enhance Kao's corporate value by playing a part in maintaining appropriate corporate governance.

Corporate Governance

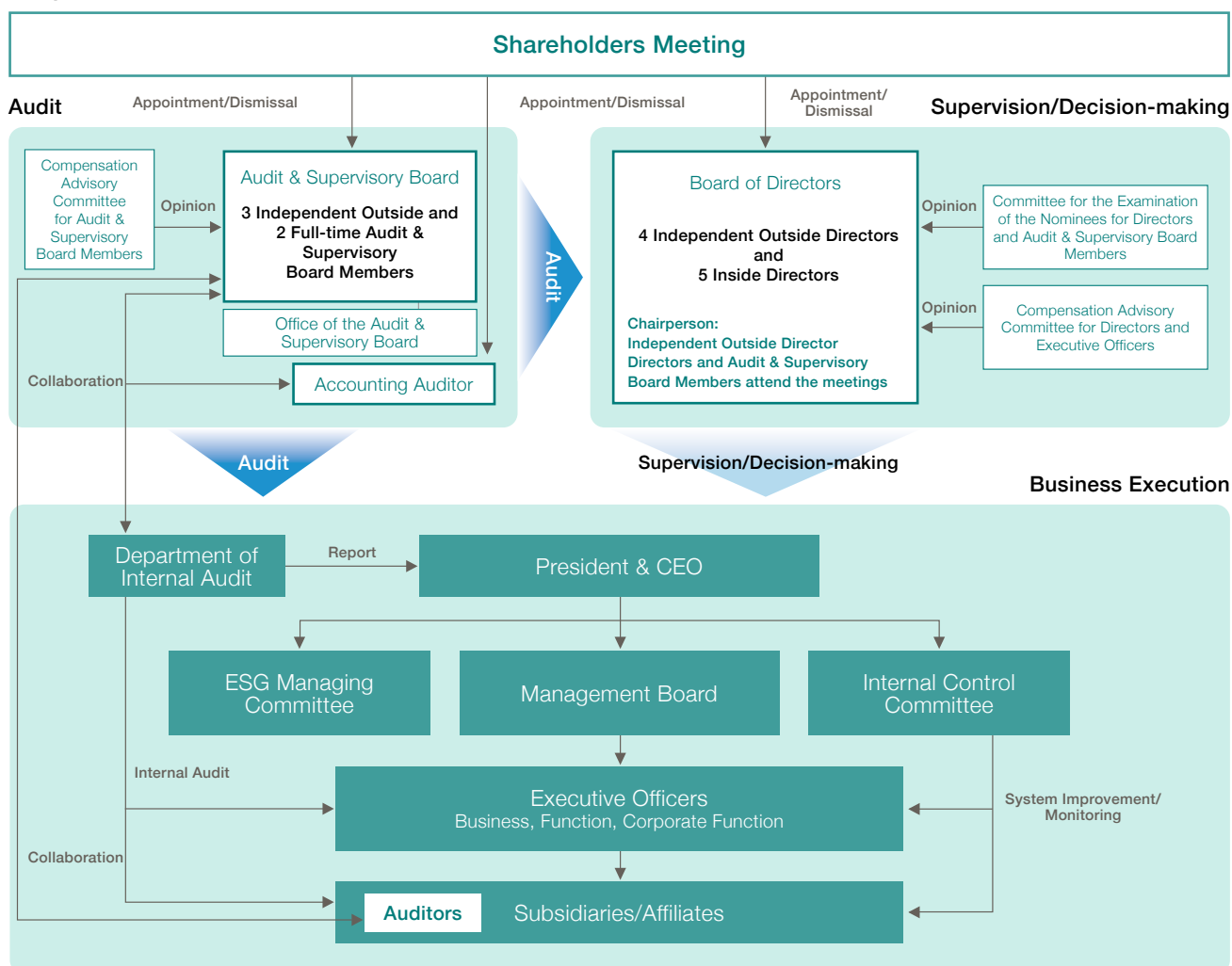
Supporting Sound Management and Sustainable Corporate Value Enhancement

Basic Policy

In order to sustainably enhance corporate value over the long term while working to realize a Kirei World in which all life lives in harmony, which is our purpose, and to become an essential company in a sustainable world, as raised in K25, Kao positions corporate governance as a top-priority management issue and continuously strengthens governance in both systems and operations. Kao's corporate governance is a framework for transparent, fair, prompt and decisive decision-making. It takes into account the perspectives of all stakeholders and responds in a timely and appropriate manner to changes that are increasingly

diverse, complex, and difficult to predict so that we can contribute to society and continuously enhance corporate value. The foundations of our efforts to achieve this are establishing and operating the necessary management structures and internal control systems, implementing the necessary measures in a timely manner, and demonstrating accountability. In addition, we work to understand social trends at all times and actively engage in dialogue with stakeholders to review the status of corporate governance from time to time and implement appropriate and necessary countermeasures and improvements.

Corporate Governance Structure (As of May 2022)



Features of Kao's Corporate Governance

To realize a Kirei World in which all life lives in harmony	We position the establishment of effective corporate governance systems as the foundation and a driver for achieving our purpose to realize a Kirei World in which all life lives in harmony.
Integrity as the only choice	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 Integrity as the only choice, 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 for today and tomorrow	We have pursued creation of the most optimal structure to respond to changes in the business environment as well as social demands. At the Annual General Meeting of Shareholders held in March 2022, we appointed nine Directors, including one American Director and two female Directors, in order to ensure greater diversity on the Board of Directors and to further strengthen oversight in decision-making from the ESG management and global perspectives that Kao seeks. We are working to enhance corporate value by reviewing our systems and operations to achieve a higher level of corporate governance.
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 14 members of the Board of Directors/Audit & Supervisory Board Members independent and outside members and having an Outside Director serve as Chairperson 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.

Kao's Path toward Strengthened Governance

2000	Introduced objective perspectives Established the Advisory Committee	2014	Smaller Board of Directors established (to accelerate business execution) and transparency ensured Transformation to the Committee for the Examination of Nominees for Directors and Executive Officers A majority of the Board of Directors are Outside Directors An Outside Director appointed as Chairperson of the Board of Directors
2001	Introduced a stock option plan Abolished retirement benefits		
2002	Introduced the Outside Director system Introduced the Executive Officer system		
2003	Divided management supervision and execution Appointed the President and lower positions as Executive Officers Established the Committee for the Examination of Nominees for Chairperson of the Board and the President and Chief Executive Officer Established the Compensation Advisory Committee for Directors and Executive Officers Established the Department of Internal Audit	2015	Started applying the Corporate Governance Code Transformation to the Committee for the Examination of Nominees for Directors Evaluation of the effectiveness of the Board of Directors
		2016	Evaluation of the effectiveness of the Audit & Supervisory Board Revised the Outside Director compensation system to not link to business performance
2006	Companies Act came into effect Established the Internal Control Committee Commenced meetings to exchange opinions between Representative Directors and Audit & Supervisory Board Members Introduced share remuneration type stock options	2017	Strengthened information disclosures based on integrated thinking First Integrated Report issued Introduced performance-based share incentive plan
		2018	Established the ESG Committee
2009	Kao Environmental Statement formulated, and ecology-centered management adopted	2019	Announcement of a major shift to ESG-driven management Established the ESG External Advisory Board Evaluation of the effectiveness of the Committee for the Examination of Nominees for Directors and the Compensation Advisory Committee started
2010	Established the Sustainability Committee Established Standards for Independent Outside Directors/Outside Audit & Supervisory Board Members		
2013	Strengthened information dissemination regarding mid-to long-term sustainability Kao Group Mid-term Plan (K15) formulated	2020	Formulation of K25 and ESG positioned at the core of management Transformation to the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members Established the Compensation Advisory Committee for Audit & Supervisory Board Members

Stance on Balance among Knowledge, Experience and Skills, and on Diversity and the Size of the Board of Directors

At the Board of Directors meetings, Directors present the major directions of management strategies, etc., and Directors and Audit & Supervisory Board Members deliberate on their appropriateness and risks involved in their implementation from objective and multifaceted perspectives, while appropriately supervising and auditing the execution of these strategies. To this end, we believe that it is essential that Inside and Outside Directors and Audit & Supervisory Board Members with diverse knowledge, experience, and skills exchange opinions and engage in constructive dialogue from a variety of perspectives. Based on the vision of “protecting future lives” and promoting “sustainability as the only path,” as stated in K25 in order to realize a Kirei World in which all life lives in harmony, which is

our purpose, we deliver products and services that protect the healthy lives of people and consumers and customers by leveraging our advanced technologies developed through extensive R&D including fundamental research from an ESG perspective. In addition, we make further strategic investments and expand existing businesses with the aim of creating new business that protect future lives by utilizing digital transformation with an eye toward the global environment and human life. To support these activities, we supervise from objective and diverse perspectives and build systems that can be verified from professional perspectives such as accounting, finance, and legal with the aim of achieving continuous improvement. To achieve these objectives, the Board of Directors considers

Skill Matrix and Attending Members

	Name	Affiliation			Experience/Knowledge/Expertise								
		Term of office	Gender	Nationality	ESG	Management	Global	Development/ Manufacturing	Business/ Sales	Business innovation	Risk/Legal regulations	Finance/ Accounting	
Directors	Michitaka Sawada	13 years 9 months	Male	Japan	✓	✓		✓		✓			
	Yoshihiro Hasebe	6 years	Male	Japan	✓	✓		✓		✓			
	Toshiaki Takeuchi	8 years	Male	Japan		✓			✓				
	Tomoharu Matsuda	3 years	Male	Japan		✓	✓	✓	✓				
	David J. Muenz	—	Male	United States	✓		✓	✓	✓				
	Osamu Shinobe	4 years	Male	Japan		✓	✓	✓	✓	✓	✓		
	Chiaki Mukai	3 years	Female	Japan	✓		✓			✓			
	Nobuhide Hayashi	3 years	Male	Japan		✓	✓			✓		✓	
	Eriko Sakurai	—	Female	Japan		✓	✓	✓	✓	✓			
Audit & Supervisory Board Members	Hideko Aoki	3 years	Female	Japan	✓			✓			✓		
	Sadanao Kawashima	1 year	Male	Japan			✓					✓	
	Hideki Amano	5 years	Male	Japan	✓		✓					✓	
	Nobuhiro Oka	4 years	Male	Japan	✓						✓		
	Takahiro Nakazawa	2 years	Male	Japan	✓							✓	

Note: The areas of experience, knowledge, and expertise of each Director and Audit & Supervisory Board Member that are particularly expected of them are marked with “✓.”

it is important for Inside and Outside Directors and Audit & Supervisory Board Members to complement each other with each of their knowledge, experience, and abilities and to be able to demonstrate high effectiveness as a whole.

In addition to knowledge, experience and ability, we recognize the diverse perspectives that come from diversity of the Board of Directors in terms of gender, nationality, race and age contribute to the promotion of business, global expansion and proper supervision and auditing, and promotes the appointment of such diverse personnel as Directors and Audit & Supervisory Board Members. Our target for the ratio of female on the Board of Directors is 30% by 2025.

We set the appropriate size of the Board of Directors in

consideration of the balance between having diverse personnel required to conduct the proper deliberations and supervision of execution and a small Board of Directors to accelerate decision-making for dealing with business expansion and other matters, on the premise of the delegation of responsibility to appropriately placed Executive Officers. We aim to have Outside Directors comprise approximately half of the Board of Directors to ensure its diversity and influence and emphasizes their independence. In addition, we aim to have a majority of Outside Audit & Supervisory Board Members who meet the Standards for Independence.

Primary reason for marking with “✓”	Attending organization					Attendance in FY2021	
	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	Board of Directors	Audit & Supervisory Board
<ul style="list-style-type: none"> ● Experience in Kao R&D ● Experience as Kao Representative Director, President and Chief Executive Officer ● Chairman of the Japan Clean Ocean Material Alliance (CLOMA) 	✓			✓		100% (15/15)	—
<ul style="list-style-type: none"> ● Experience in Kao R&D (including ESG knowledge) ● Experience in the Kao Strategic Innovative Technology 	✓			✓	✓	100% (15/15)	—
<ul style="list-style-type: none"> ● Representative Director, President, Kao Group Customer Marketing Co., Ltd. 	✓			✓		100% (15/15)	—
<ul style="list-style-type: none"> ● President, Consumer Products, Global ● Experience in managing Kao overseas subsidiaries 	✓			✓		100% (15/15)	—
<ul style="list-style-type: none"> ● Experience as the head of research and chief of business at Kao overseas subsidiary ● Senior Vice President, ESG, Global 	✓					—	—
<ul style="list-style-type: none"> ● Experience as the top executive of major international airline 	Chair		✓	✓	✓	100% (15/15)	—
<ul style="list-style-type: none"> ● Medical Doctor and astronaut ● Experience in taking on challenges in new fields, such as serving as an astronaut and in academic research 	✓		Chair	✓		100% (15/15)	—
<ul style="list-style-type: none"> ● Experience as the top executive of a major international financial institution 	✓		✓	Chair		100% (15/15)	—
<ul style="list-style-type: none"> ● Experience as the regional head of a major international chemical company ● Experience as an outside director of major corporations 	✓		✓	✓		—	—
<ul style="list-style-type: none"> ● Experience as a Kao Managing Executive Officer ● Experience in the Kao Product Quality Management ● Commissioner of the consumer-related commissions of the government 	✓	Chair				100% (15/15)	100% (10/10)
<ul style="list-style-type: none"> ● Experience in Kao Finance Department (including overseas experience) ● Experience in the Kao Department of Internal Audit 	✓	✓				100% (13/13)	100% (8/8)
<ul style="list-style-type: none"> ● Certified Public Accountant (including overseas experience) 	✓	✓	✓	✓	Chair	100% (15/15)	100% (10/10)
<ul style="list-style-type: none"> ● Attorney-at-Law ● Professor, Keio University Law School 	✓	✓	✓	✓	✓	100% (15/15)	100% (10/10)
<ul style="list-style-type: none"> ● Certified Public Accountant 	✓	✓	✓	✓	✓	100% (15/15)	100% (10/10)

Note: Members attending each organization are marked with “✓.”

Initiatives to Enhance the Effectiveness of the Board of Directors

Kao is implementing the following initiatives to ensure that the Board of Directors and Audit & Supervisory Board Members fulfill 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 and Outside Audit & Supervisory Board Members

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.
An Outside Director serves as Chairperson of the Board of Directors	—	By appointing an Outside Director to serve as Chairperson 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 Chairperson of the Board of Directors to sit in on meetings of the Management Board	Three to four times a month	Having the Chairperson of the Board sit in on meetings of the Management Board, which constitutes the highest executive decision-making body, creates opportunities for the Chairperson to directly access information relating to important executive issues and the state of discussion regarding those issues. When meetings of the Board of Directors are held, the Chairperson 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	Twice a year	Having Outside Directors and Outside Audit Supervisory Board Members visit Kao's overseas and domestic markets, offices, factories and retailers creates opportunities for them to directly access information relating to the frontline of our operations. Since FY2020, due to the spread of the COVID-19 pandemic, visits were made only to worksites within Japan.

Board of Directors

The Board of Directors deliberates on major management directions from multiple perspectives, including risk assessment, and supervises the appropriate execution of management strategy. It also puts in place an environment conducive to offensive management that clearly identifies risks, by establishing an internal control system and risk management system. In FY2021, the Board discussed many topics under K25, engaging in free and open exchanges of opinions. In addition to the items noted on the right, the board receives business execution reports from Directors serving as Executive Officers, and receiving reports on matters discussed during meetings of the Management Board from the Executive Officer in charge (the Board met 15 times in FY2021).

Major Topics Deliberated by the Board of Directors in FY2021

- | | |
|------------------------------|---|
| Corporate philosophy | ● Deliberate on the revision of the Kao Way |
| Mid- to long-term strategies | ● Report on strategies for implementing K25
・ Strategic meeting reporting
・ Digital Life Platform reporting
・ Reborn Kao and Another Kao progress report |
| Capital policy | ● Financial strategy reporting |
| Corporate Governance | ● Department of Internal Audit report
● Audit & Supervisory Board Members audit report
● Deliberate on disclosure of corporate governance
● Report on human capital strategy |
| Others | ● ESG Committee activity report |

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 FY2021 evaluation, once again, a survey was conducted, and feedback on the survey results were provided before engaging in discussion and exchange of opinions.

Results of Evaluation of the Effectiveness in FY2019

Main Implementation Items	Future Issues
<ul style="list-style-type: none"> Human capital strategy: A certain amount of discussion was held on finding and developing global and diverse human resources, and a common understanding of the issues was achieved. Interactive communication between management and execution: Several Executive Officers made presentations and discussed forward-looking mid- to long-term strategy with the Board of Directors, deepening mutual understanding through a direct exchange of opinions. Internal controls: The number of incidents of negative information being sent to the Board of Directors and the pace of sending that information improved. Deep discussion on the ESG Strategy resulted in a public declaration of intent. 	<ul style="list-style-type: none"> Human capital strategy: Deeper discussion will be conducted on finding and developing young human capital, using human resources from external sources as well as human resource requirements and training plan based on ideals. Internal controls: Further improvements are needed in getting reports from operational sites and in facilitating cross-division cooperation. Discussions on the background and core elements of events that have happened are also needed. It is also necessary to set aside time to discuss key directions of the Kao Group, such as the mid-term plan, human capital strategy, global strategy, and M&A strategy.

Results of Evaluation of the Effectiveness in FY2020

Main Implementation Items	Future Issues
<ul style="list-style-type: none"> There was discussion on whether or not the degree of achievement of K20 was affected by the COVID-19 pandemic. The process of formulating K25 involved a lively exchange of opinions and adequate discussion over an extended period of time, which deserves a positive evaluation. The composition of the Board of Directors is well-balanced and with inappropriate levels for realization of K25. The main direction was fully discussed through deliberation on K25. 	<ul style="list-style-type: none"> In order to achieve K25, it is necessary to continue discussions on mechanisms for monitoring progress, large-scale investment and strategic measures, and solutions to circumstances that hinder implementation. Human capital strategy: We should deepen the discussion on the ideal direction, as well as discussion on how to retain and cultivate the types of human capital that are needed in order to realize K25. Internal controls: Development of systems and operational adequacy need to be supervised at all times so that controls can function more effectively. The diversity of the Board of Directors and Executive Officers should be discussed and improved. Further discussion is needed regarding global strategies and M&A strategies.

Results of Evaluation of the Effectiveness in FY2021

Main Implementation Items	Future Issues
<ul style="list-style-type: none"> The principal themes of K25 were frequently raised by the Board of Directors, with active discussions conducted in a timely manner. Measures that emphasize the furtherance of K25 are being conducted, including promotion of global-minded personnel and young employees, and active utilization of external human capital. Also, a report was made on the introduction status of Objectives and Key Results (OKRs), a new management tool for activating personal growth. Negative information and risk information were appropriately reported in a timely manner. In addition, the system now enables rapid response when problems occur. A system that enables appropriate monitoring has been established and is in operation. The head of the ESG Division reports on its activities, and there are reports on other agenda items that touch on their relevance to ESG. 	<ul style="list-style-type: none"> It is also necessary to deepen discussions on issues that hinder the realization of K25, measures to solve them, and actions that should be prioritized, and to conduct periodic verification with a greater awareness of the PDCA cycle for the realization of K25. Human capital strategy is a management issue for ongoing consideration, and it is necessary to deepen discussions of issues including the promotion of human capital needed for realizing K25, assignment and training of human capital for that purpose, and the evaluation of executive staff. It is necessary to continuously verify and discuss whether potential internal control issues are latent in the organization and ongoing supervision is also necessary because problems may arise that were not apparent due to the COVID-19 pandemic. It is desirable to further enhance reports on the status of specific activities in each country and division, sharing of information on comparison between Kao's ESG activities and social trends and other matters, and how to communicate externally and collaborate with other companies.

Audit & Supervisory Board

Each Audit & Supervisory Board Member performs his/her duty independently to ensure that the Kao Group achieves sound and sustainable growth and establishes governance that respond to the confidence of stakeholders. Audit & Supervisory Board consists of three Outside members and two Full-time members and formulates audit policies and plans. Each member frankly exchanges his/her opinions, deliberates the issues and makes resolutions (the Board held 10 times in FY2021).

Major Topics Deliberated by the Audit & Supervisory Board

- Enhancing group governance
- Trends in social demands such as revision of the Corporate Governance Code and identification of current issues in Japan and overseas
- Status of development and operation of the internal control system
- Dealing with Whistleblowing
- Report on the activities of Full-time Audit & Supervisory Board Members
- Organizing Audit & Supervisory Board Member related rules
- Evaluation of the effectiveness of the Audit & Supervisory Board

Audit Policies and Key Audit Items

Audit & Supervisory Board conducts its duties in accordance with its audit policies which reflect management policies and strategies based on K25, changes in the social environment and stakeholders' requirements, summarize its activities

through effectiveness evaluations, and review and identify issues which should be dealt with in the following fiscal year as key audit items.

(i) Audit Policies

- The Audit & Supervisory Board verifies the management decision-making process and the execution of business at meetings of Board of Directors and other important meetings and further interviews divisions and group companies to verify the degree to which the management policies have been instilled in them and audit the management policies to check that the sound management of Kao Group is ensured.
- The Board audits the effectiveness of group governance with a focus on the prevention of material losses from being incurred when auditing the establishment and operation status of the internal control of Kao and its

group companies. The Board further verifies the future direction of the Kao Group's internal control set by the divisions which promote the internal control in response to management strategies that create new business domains and new business models.

- The Board strengthens co-working with auditors of group companies and the Accounting Auditor and endeavors to improve the effectiveness and efficiency of audits in light of changes in the social environment that affect governance. Further, verifies that information is disclosed in a more appropriate and proactive manner.

(ii) Key Audit Items


- Implementation of the K25 in its first year
- Establishment and operation status of internal control of Kao and Group companies
- Improvement of the effectiveness of group governance
- Disclosure of information in a more appropriate and proactive manner

Activities and Evaluation of Effectiveness in FY2021

The main activities of Audit & Supervisory Board Members in FY2021 are as indicated in the table on the right page. The Audit & Supervisory Board conducts an annual effectiveness evaluation to improve the effectiveness of audit activities every year. It determines evaluation items mainly focused on main audit items, each Audit & Supervisory Board Member makes evaluation by him/herself and they discuss the result of the evaluation and identify issues at the Audit & Supervisory Board. The Audit & Supervisory

Board reflects the results in its next year's plan and strive to continuously improve effectiveness. The Audit & Supervisory Board deliberated on the results of the evaluation of the effectiveness of audit activities for FY2021 and concluded that it was functioning effectively. The Audit & Supervisory Board will also focus on information disclosures that satisfy the demands of society and stakeholders in the coming fiscal year.

Activities and Evaluation of Effectiveness in FY2021

Main Audit Items	Main activities (numbers of times are results for FY2021)	Evaluation of effectiveness and identified issues
Directors' execution of duties	<ul style="list-style-type: none"> Attended meetings of the Board of Directors (15 meetings), checked deliberations and resolutions, and expressed opinions, as necessary. Held meetings to exchange opinions with the Representative Directors of Kao and its important subsidiaries (6 meetings) as well as with the Outside Directors (3 meetings) and shared findings obtained from audit activities and made advices. 	<ul style="list-style-type: none"> Attended meetings of the Board of Directors and other important meetings and spoke without restrictions and audit the status of deliberations. In the first year of K25, Audit & Supervisory Board Members frankly shared awareness of issues at meetings with Representative Directors, confirmed the degree of penetration of K25 through interviews focusing on dialogue with each division and group company, and worked to improve the effectiveness of supervision. Progress is being made on new challenges, the conventional approach still continues, and in the next fiscal year Audit & Supervisory Board will focus on the effects of structural reforms and the speeding up of implementation.
	<ul style="list-style-type: none"> Attended important meetings such as meetings of Management Board, Committee, and Internal Control Committee (139 meetings), verified the decision-making process, and requested explanations, as necessary, and made advices from time to time. 	
	<ul style="list-style-type: none"> Verified the degree to which K25 had been instilled in Kao's worksites, divisions, and domestic and overseas group companies by conducting dialog-oriented on-site visits and interviews. 	
	<ul style="list-style-type: none"> Attended meetings of the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members, the Compensation Advisory Committee for Directors and Executive Officers, and Compensation Advisory Committee for Audit & Supervisory Board Members for review and discussion. 	
Internal controls	<ul style="list-style-type: none"> Audited the status of business execution and the establishment and operation of internal control systems for worksites, divisions, and domestic and overseas Group companies. Audited the status of monitoring with the divisions who are in charges of second line of the internal control, such as the Legal and Governance Department and the Risk Management and Responsible Care. The above on-site visits and interviews were conducted as in previous years (115) while making use of remote auditing techniques such as online meetings in timely manner. Approximately 70% of such procedures were attended by at least one Outside Audit & Supervisory Board Member. 	<ul style="list-style-type: none"> The "system to supervise Directors" was generally appropriate, as it simultaneously checked the status of the development and operation of the internal control system. FY2021 was focused on the speed of self-inspection and improvement in the first line of internal control, and the monitoring status in the second line, confirming the improvement against the issues in the previous fiscal year. The effectiveness of on-site visits and interviews was improved as a result of the measures described on the left. Going forward, Audit & Supervisory Board will focus on steady operation and consideration of diversity such as monitoring methods for overseas group companies and cooperation with business partners.
	<ul style="list-style-type: none"> To improve the efficiency and effectiveness of audits, interviews focused on specific topics and the exchange of opinions. The interview method has been improved by reconfirming the previously identified issues at the start, arranging the Audit & Supervisory Board Members' comments into requests and advice at the end, and extracting and sharing best practices. 	
Group governance	<ul style="list-style-type: none"> Exchanged opinions with the Department of Internal Audit, which is an internal audit division, on a regular basis and as-needed basis to improve the effectiveness of audits. 	<ul style="list-style-type: none"> The Audit & Supervisory Board is promoting co-working with the Department of Internal Audit and auditors of group companies. On the other hand, there are many auditors at group companies who have concurrent positions. As issues are being identified through fact-finding surveys, the system is being reviewed, and some members of the newly established Office of the Audit & Supervisory Board in January 2022 will be appointed as auditors of some group companies, which will promote cooperation and result in improved effectiveness of the audit function in the future. The Audit & Supervisory Board works closely with the Accounting Auditor while monitoring the independence and appropriateness of audits.
	<ul style="list-style-type: none"> Worked closely with auditors of group companies to improve the effectiveness of audits by holding regular meetings to exchange opinions with them and requesting such group company's auditor to attend at Audit and Supervisory Board's interviews on their group companies. 	
	<ul style="list-style-type: none"> Received an annual audit plan, accounting audit findings (quarterly reviews and annual audit findings), and key audit matters (KAM) from and exchange opinions with Accounting Auditor while monitoring the independence and appropriateness of audits (on 23 meetings). 	

Internal Audit

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 Board 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 both social contribution and sustainable enhancement of corporate value, we made adjustments to the long-term incentive compensation indicators starting in FY2021. Specifically, the new evaluation system is multifaceted from three perspectives,

moving away from the traditional focus on financial indicators to include growth potential evaluation indicators that measure how well business has grown, ESG potential evaluation indicators that measure how well Kao has implemented activities for ESG-driven management, and management potential evaluation indicators that measure the overall implementation of management activities through evaluation in employee awareness surveys and other measures.

As regards short-term incentive compensation, EVA and consolidated net sales and income are used as the evaluation indicators. EVA 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 and can help to foster a sense of unity with employees.

FY2021 Review of Long-term Incentive Compensation Indicators

Details of review	Objectives
Introduce business growth evaluation indicators* * Business growth rate of net sales, profit, etc.	Reflect in compensation the degree of growth of the Kao Group's business
Introduce ESG activities evaluation indicators** ** Evaluation by external indicators, and extent of achievement of internal goals (such as the Kirei Lifestyle Plan), etc.	Reflect in compensation the degree of implementation of activities aimed at ESG management sought by the Kao Group
Introduce top management activities evaluation indicators*** *** Evaluation of management activities by Kao employees, etc.	Reflecting in compensation the overall achievement of management activities based on evaluations conducted through employee surveys, etc.

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		In the case of a serious compliance violation by the individual in question during the period from the start date of coverage by the system to three years after the final delivery of shares and so on, the Company claims that the delivered shares and so on must be returned.		
Performance evaluation period	—	1 year		5 years (2021–2025)		
Evaluation indicator	—	EVA	• Consolidated Net Sales • Income (Gross Profit Less Selling and General and Administrative Expenses)	Business growth (40%)	ESG activities (40%)	Top management activities (20%)
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 Kirei 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: 30–35% of base salary		The yearly share remuneration amount when the variable component coefficient is 100% • About 30%–50% of the base salary of the position		
Eligible for provision	• Directors • Executive Officers • Auditors	• Directors (Except for Outside Directors) • Executive Officers		• Directors (Except for Outside Directors) • Executive Officers		
Applicable period	—	1 year		5 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 FY2021

Classification	Number of persons (Persons)	Aggregate amount of remuneration (Millions of yen)	Amount of remuneration by type (Millions of yen)			
			Base salary	Short-term incentive compensation (Performance-based bonus)	Long-term incentive compensation (Performance-based share incentive)	
					Variable part (Performance-based part)	Fixed part
Directors (of Outside Directors)	8 (4)	467 (75)	324 (75)	39 (–)	73 (–)	31 (–)
Audit & Supervisory Board Members (of Outside Audit & Supervisory Board Members)	6 (3)	82 (30)	82 (30)	– (–)	– (–)	– (–)
Total (of Outside Directors and Audit & Supervisory Board Members)	14 (7)	549 (105)	406 (105)	39 (–)	73 (–)	31 (–)

Note: 1. The above numbers of Directors/Audit & Supervisory Board Members include one Audit & Supervisory Board Member who resigned at the conclusion of the 115th Annual General Meeting of Shareholders held on March 26, 2021.

2. The variable part (performance-based part) of the long-term incentive compensation (performance-based share incentives) will be determined after the final year of our K25 mid-term plan, which covers the five fiscal years from 2021 to 2025, and therefore, the variable part (performance-based portion) is the amount recorded as a provision for the most recent fiscal year.

Compensation Paid for Individual Directors in FY2021

Name (Director classification)	Aggregate amount of remuneration (Millions of yen)	Corporate classification	Amount of remuneration by type (Millions of yen)			
			Base salary	Short-term incentive compensation (performance-based bonus)	Long-term incentive compensation (performance-based share incentive)	
					Variable part (performance-based part)	Fixed part
Michitaka Sawada (Director)	125	Submitting company	99	0	18	8
Yoshihiro Hasebe (Director)	139	Submitting company	82	22	24	11

Note: 1. Only Director remuneration amounts totaling over 100 million yen are listed.

Risk and Crisis Management

Supporting Management in an Era of Uncertainty

Basic Policy

In order to sustainably increase corporate value over the long term while working to realize a Kirei World in which all life lives in harmony, which is our purpose, timely and appropriate responses to increasingly diverse and complex risks are needed.

We regard potential negative impacts on the achievement of the management targets and business activities as a

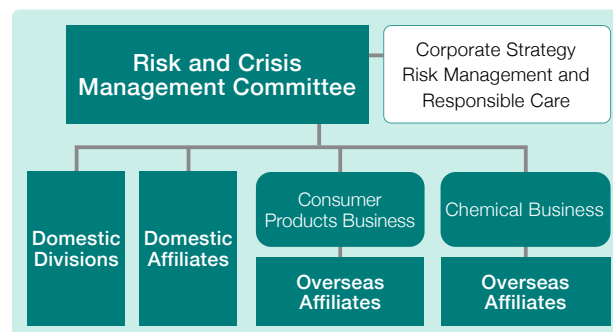
“risk,” and the manifestation of such risk as a “crisis.” We appropriately manage the various risks and crises that could occur across our business in accordance with the response priorities detailed in the Kao Risk and Crisis Management Policy (1. Protection of human lives, 2. Environmental conservation, 3. Continuation of operations, 4. Protection of assets).

Risk and Crisis Management System

The Risk and Crisis Management Committee establishes the management system and activity guideline for risk and crisis management. Divisions and affiliates conduct risk management by identifying and assessing risks and formulating and implementing appropriate countermeasures based on this activity guideline. Affiliated companies outside Japan are managed through business divisions. In addition, when a crisis arises an Emergency Response Team is launched corresponding to the severity of the emergency to promptly and appropriately address the crisis in order to minimize physical damages and financial losses. The Management Board reviews these efforts at regular intervals and other times as needed, and the Board of

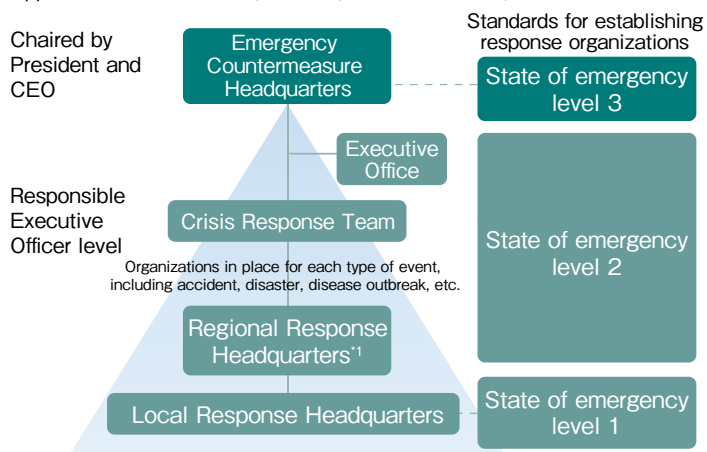
Directors approves them.

Risk Management System



Management Framework During Times of Crisis

Applicable event: Accident, disaster, disease outbreak, etc.



State of emergency level

Level 1: Relevant divisions can respond on a local basis

Level 2: Impact on the operations of multiple divisions and locations

Level 3: Company-wide impact and impact on Kao's business

*1 Regional Response Headquarters: Organization that gathers local information, collaborates with and supports local offices, and makes judgments on regional actions and provides instructions for such actions

Clarifying Main Risks and Strengthening Responses

The Risk and Crisis Management Committee and the Management Board have defined 14 main risks of special importance as risks that could negatively impact our sustainable and profitable development, 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. Among the main risks, we designate those that would have a particularly large impact

on our management and for which we need to strengthen our responses as “corporate risks.” Once a year, the Management Board selects risk themes and risk owners (Executive Officers) based on internal risk survey analysis, analysis of the external environment, 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.

Risk Management Processes



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 long-term effects and infectious mutant variants of the global COVID-19 pandemic	<ul style="list-style-type: none"> Held a meeting of the Emergency Response Team Headquarters (headed by the President) to implement responses with a focus on ensuring the safety of employees and their families and on the continuity of business activities As crisis management measures, followed national and local government policies, and additionally implemented work systems and styles compatible with the status of infection (promotion of remote work/teleworking, restrictions on business trips, restrictions on training/events/tours, etc.) Identified the status of infected employees and family members or those who have been in close contact with infected persons, and implemented care as applicable, and measures to prevent the occurrence of infection clusters Held workplace vaccination drives for employees and their families Strengthened infection control measures in countries and regions where infection has spread and implemented measures related to business continuity in collaboration with group companies Reviewed group systems for new workstyles to further promote of business digitalization, remote work, etc. Reviewing guidelines and action plans for the next pandemic based on experience with the COVID-19
Reputation risks	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 emergency contact system used during contingencies Strengthen the social media monitoring system Continuously strengthen internal education, and revise guidelines and the like regarding social media
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
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, means of communication and BCP drills to prepare for major earthquakes and other events
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



Financial Report 2021

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/investor-relations/pdf/financial-reports-fy2021e-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 2021.

Compliance

Putting Integrity as the Only Choice into Practice on a Daily Basis

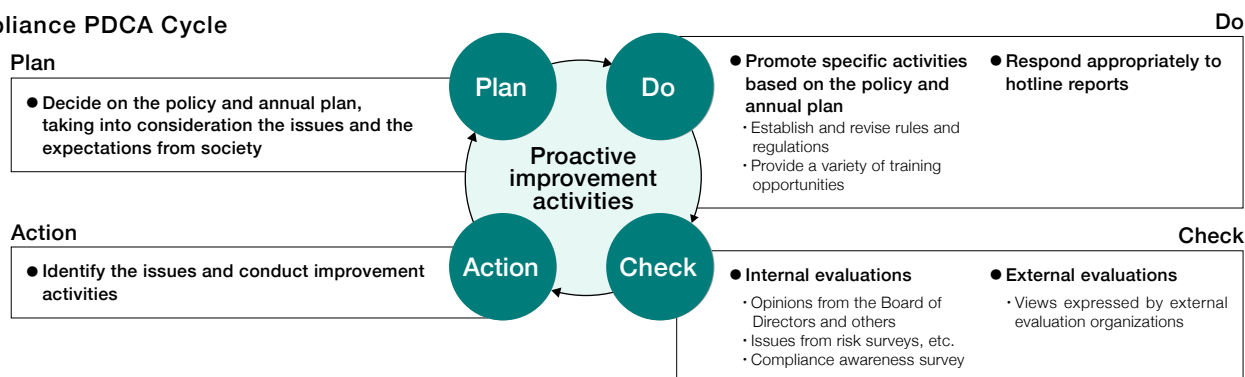
Basic Policy

We regard Integrity as the only choice, the core value inherited from the founder, as the starting point of our compliance. To justify the support and trust of all of our stakeholders, we implement compliance promotion activities in accordance with the PDCA cycle.

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

Committee, Management Board and Audit & Supervisory Board, and based on their reviews, issues are identified and activities to improve them are undertaken. The Compliance Committee deliberates on how to respond to issues identified through the compliance awareness survey and external surveys and reflects the results in activities for the following year. The Internal Control Committee submits annual activity reports to the Board of Directors, and following deliberation, improvement activities are implemented.

Compliance PDCA Cycle



Compliance Education

The Kao Business Conduct Guidelines (BCG), which provide the specific details of Kao's corporate code of conduct, are used to ensure strict compliance by each Executive Officer and employee.

Role-specific training is conducted for new and promoted employees, and training opportunities are also provided every year for Executive Officers. All employees are given periodic compliance review opportunities, and training and

BCG refresher tests are also conducted. The Chairperson of the Compliance Committee and the Heads of each division deliver Compliance Messages that are more personal and more relevant to employees' daily working lives on topics such as the importance of thoughtful words and actions as well as an open organizational culture. Education related to laws and regulations is planned and conducted by designated managing divisions.

Compliance Training System

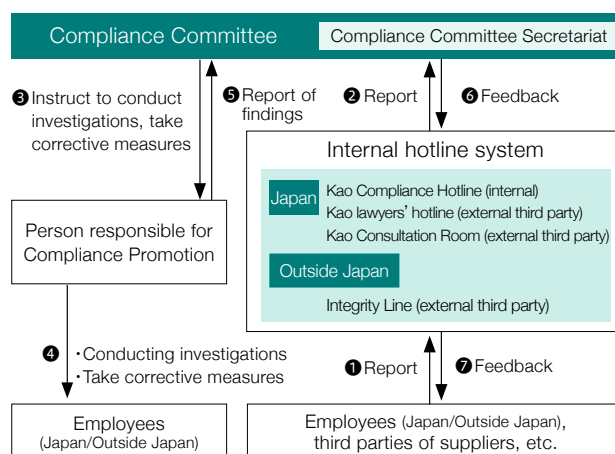
Training name	Target group	Objective	Frequency
New Employee Orientation	New employees	Study our compliance approach and the BCG	On joining
Training for managers	Japan: New managers Outside Japan: Managers	Group work to build awareness for compliance risk reduction	Japan: When promoted to Manager Outside Japan: Every 3 years
Trainings by division leaders	Managers/Non-manager employees	Division leaders communicate the message to employees to make compliance relevant to them personally	Once every 2 years
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
BCG Casebook	Managers/Non-manager employees	Study the BCG using specific cases	Review each time the BCG is revised
Compliance case studies	All employees	Study compliance points to keep in mind through cases at Kao and other companies	Japan: Monthly Outside Japan: Twice a year
Executive training sessions	Executive Officers and above	Learn legal and compliance risk from a management perspective	Annually

Compliance Hotline System

We have 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 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.

Hotline Reporting and Consultation Process



Compliance Evaluation Process

We set zero serious compliance violations as an indicator in the Kirei Lifestyle Plan in April 2019.

These serious compliance violations refer to compliance violations that significantly impact management and result in significant loss to our corporate value. Taking into consideration the malicious nature of the violation, as well as its internal/external impact, opinions are solicited from the Compliance Committee Secretariat, Compliance Committee and Audit & Supervisory Board Members. The Management Board reviews these opinions, and its conclusions are reported to the Executive Officers Meeting and the Board of Directors.

In making this determination, all of the compliance issues are reviewed at the weekly meeting to identify topics that should be recognized as issues for the company. After consideration and as part of its monthly meetings, the Compliance Committee Secretariat designates cases with potential to recur or spread

throughout the company as cases requiring close attention. It also identifies potential serious compliance issues from among any violations of laws and regulations that may have occurred. During this process, the committee secretariat receives third-party evaluations and recommendations from outside attorneys who attend its meetings as advisors. The division where the incident occurred will examine its causes and background, formulate and practice measures to prevent recurrence, and submit a summary report to the Compliance Committee. After a process of receiving evaluations and recommendations from each committee member with respect to the report, a final verdict is made on compliance violations that have a significant impact on management and significantly damage corporate value.

There were no such serious compliance violations to which the above applied in 2021.

Number of Serious Compliance Violations*: Target and Results

Target value	2017	2018	2019	2020	2021
0	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.

T O P I C S

Sixteen consecutive years on one of the World's Most Ethical Companies® 2022 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, along with other external indicators relating to ESG, 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 25, 2022)



David J. Muenz

Director
Managing Executive Officer

Michitaka Sawada

Director, Chair

Tomoharu Matsuda

Representative Director
Senior Managing Executive Officer

Yoshihiro Hasebe

Representative Director
President and Chief Executive Officer

Toshiaki Takeuchi

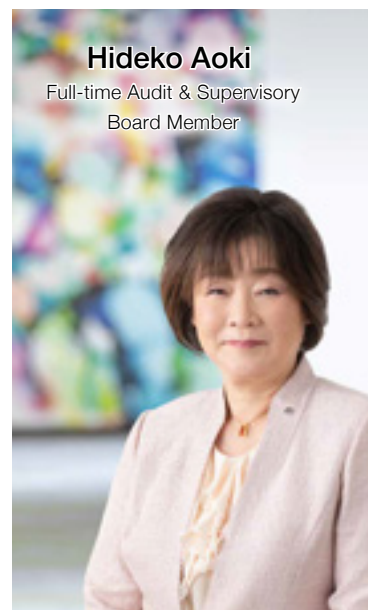
Representative Director
Senior Managing Executive Officer



Eriko Sakurai
Outside Director



Nobuhiro Oka
Outside Audit & Supervisory
Board Member



Hideko Aoki
Full-time Audit & Supervisory
Board Member



Takahiro Nakazawa
Outside Audit & Supervisory
Board Member



Nobuhide Hayashi
Outside Director



Osamu Shinobe
Outside Director



Sadanao Kawashima
Full-time Audit & Supervisory
Board Member



Chiaki Mukai
Outside Director



Hideki Amano
Outside Audit & Supervisory
Board Member

Directors and Audit & Supervisory Board Members




(As of March 25, 2022)

Directors



Title, Name, Number of Shares		Profile
	Michitaka Sawada Director, Chair Date of birth: Dec. 20, 1955 Number of Kao shares held: 42,200 shares Other material position(s) Outside Director, Panasonic Corporation Outside Director, Nitto Denko Corporation	Apr. 1981 Joined Kao Corporation Jul. 2003 Vice President, Sanitary Products Research Laboratories Jun. 2006 Executive Officer Apr. 2007 Vice President, Global Research & Development, Human Health Care Jun. 2008 Director, Executive Officer Jun. 2012 Representative Director, President and Chief Executive Officer Jan. 2014 Responsible for Product Quality Management Jan. 2016 Responsible for Corporate Strategy Jan. 2019 Responsible for Human Capital Development Jan. 2021 Director, Chair (current)
	Yoshihiro Hasebe Representative Director President and Chief Executive Officer Date of birth: Jul. 30, 1960 Number of Kao shares held: 14,100 shares Other material position(s) President of Kao Arts and Science Foundation	Apr. 1990 Joined Kao Corporation Mar. 2011 Vice President, Research and Development – Beauty Research – Hair Beauty Research Jan. 2014 Vice President, Research and Development – Core Technology; Vice President, Research and Development – Eco-Innovation Research Executive Officer Mar. 2014 Senior Vice President 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 Representative Director Senior Managing Executive Officer Date of birth: Mar. 22, 1959 Number of Kao shares held: 30,300 shares Other material position(s) Representative Director, President, Kao Group Customer Marketing Co., Ltd.	Apr. 1981 Joined Kao Corporation Mar. 2006 Vice President, Kyushu Office, Kao Customer Marketing Co., Ltd. Mar. 2009 Vice President, Corporate Planning, Kao Customer Marketing Co., Ltd. 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. Jan. 2016 Representative Director, Senior Managing Executive Officer (current); Representative Director, President, Kao Group Customer Marketing Co., Ltd. (current)
	Tomoharu Matsuda Representative Director Senior Managing Executive Officer Date of birth: Nov. 15, 1959 Number of Kao shares held: 12,500 shares	Apr. 1983 Joined Kao Corporation Jan. 2008 President, Kao (Hong Kong) Ltd. Mar. 2010 Chairperson and General Manager, Kao (Taiwan) Corporation Mar. 2013 President, Beauty Care, Skin Care and Hair Care Business Unit, Global Mar. 2014 Executive Officer Jan. 2018 Managing Executive Officer; Senior Vice President, Consumer Products, Global; Responsible for Skin Care and Hair Care Business; Responsible for Human Health Care Business; Responsible for Fabric and Home Care Business; Chairperson 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) Mar. 2021 Representative Director, Managing Executive Officer Jan. 2022 Representative Director, Senior Managing Executive Officer (current)
	David J. Muenz Director Managing Executive Officer Date of birth: Nov. 15, 1960 Number of Kao shares held: 0 shares	Jul. 2003 Joined The Andrew Jergens Company (currently, Kao USA Inc.); Senior Vice President, Research and Development, US Jan. 2014 Vice President, Mass Sector, Beauty Care Business Division- (Flagship Brand Manager, John Frieda, Global & Jergens, Global); Jan. 2018 Vice President, Mass Business, Americas & EMEA Jul. 2018 Senior Vice President, ESG, Global (current) Jan. 2019 Executive Officer Jan. 2022 Managing Executive Officer Mar. 2022 Director, Managing Executive Officer (current)
	Osamu Shinobe Outside Director Date of birth: Nov. 11, 1952 Number of Kao shares held: 1,300 shares Other material position(s) Special Advisor, ANA HOLDINGS INC.	Apr. 1976 Joined ALL NIPPON AIRWAYS CO., LTD. (currently, ANA HOLDINGS INC.) Jun. 2007 Member of the Board, ALL NIPPON AIRWAYS CO., LTD. Apr. 2009 Executive Vice President (<i>jomu torishimariyaku</i>), ALL NIPPON AIRWAYS CO., LTD. Jun. 2011 Executive Vice President (<i>senmu torishimariyaku</i>), ALL NIPPON AIRWAYS CO., LTD. Apr. 2012 Senior Executive Vice President, ALL NIPPON AIRWAYS CO., LTD. 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/jp/ja/corporate/about/pdf/governance_002.pdf

Title, Name, Number of Shares		Profile
	Chiaki Mukai Outside Director	Apr. 1977 Staff, Department of Surgery, Keio University School of Medicine Aug. 1985 Payload Specialist, the National Space Development Agency of Japan (currently, the Japan Aerospace Exploration Agency; JAXA) Jun. 1987 Visiting Scientist, Division of Cardiovascular Physiology, Space Biomedical Research Institute, NASA Johnson Space Center Sept. 1992 Research Instructor of the Department of Surgery, Baylor College of Medicine Apr. 2000 Visiting Professor of the Department of Surgery, Keio University School of Medicine (current) Apr. 2015 Vice president, Tokyo University of Science; Senior Technical Advisor, JAXA Jan. 2016 Corporate Executive Fellow, Kao Corporation Apr. 2016 Specially Appointed Vice President, Tokyo University of Science (current) Mar. 2019 Director, Kao Corporation (current)
	Date of birth: May 6, 1952 Number of Kao shares held: 2,800 shares Other material position(s) Specially Appointed Vice President, Tokyo University of Science Outside Director, Fujitsu Limited	
	Nobuhide Hayashi Outside Director	Apr. 1980 Joined The Fuji Bank, Limited Apr. 2007 Executive Officer – Corporate Banking Division #13, Mizuho Corporate Bank, Ltd. Apr. 2009 Managing Executive Officer – Japanese Business Promotion, Mizuho Corporate Bank, Ltd. Jun. 2011 Managing Director and Head of International Banking Unit, Mizuho Corporate Bank, Ltd. Apr. 2013 Deputy President & Deputy President Executive Officer, Mizuho Financial Group Inc.; Deputy President & Deputy President Executive Officer, Mizuho Bank, Ltd.; Representative Director, Deputy President, Mizuho Corporate Bank, Ltd. Jun. 2013 Director, Deputy President, Mizuho Financial Group Inc. Jul. 2013 Representative Director, Deputy President, Mizuho Bank, Ltd. Apr. 2014 Representative Director, President and CEO, Mizuho Bank, Ltd. Apr. 2017 Director, Chairman, Mizuho Bank, Ltd. Mar. 2019 Director, Kao Corporation (current) Apr. 2019 Senior Advisor, Mizuho Bank, Ltd. (current)
	Date of birth: Mar. 27, 1957 Number of Kao shares held: 800 shares Other material position(s) Senior Advisor, Mizuho Bank, Ltd. Outside Director, Baroque Japan Limited Outside Audit & Supervisory Board Member, JTB Corp. Outside Auditor, Tobu Railway Co., Ltd.	
	Eriko Sakurai Outside Director	Jun. 1987 Joined Dow Corning Corporation May. 2008 Director, Dow Corning Toray Co., Ltd. Mar. 2009 Chairman and CEO, Dow Corning Toray Co., Ltd. Jun. 2018 Chairman and CEO, Dow Toray Co., Ltd. Aug. 2020 President, Dow Chemical Japan Limited (current) Mar. 2022 Director, Kao Corporation (current)
	Date of birth: Nov. 16, 1960 Number of Kao shares held: 0 shares Other material position(s) President, Dow Chemical Japan Limited; Outside Director, Sumitomo Mitsui Financial Group, Inc.	

Audit & Supervisory Board Members

Title, Name, Number of Shares		Profile
	Hideko Aoki Full-time Audit & Supervisory Board Member, Chairperson of the Board of Corporate Auditors	Aug. 1982 Joined Kao Corporation Apr. 2007 Vice President, Product Quality Management Division Jun. 2010 Executive Officer Mar. 2015 Managing Executive Officer Jan. 2019 Responsible for Special Missions Mar. 2019 Full-time Audit & Supervisory Board Member (current)
	Date of birth: Aug. 21, 1954 Number of Kao shares held: 21,135 shares	
	Sadanao Kawashima Full-time Audit & Supervisory Board Member	Apr. 1983 Joined Kao Corporation Apr. 2007 Audit & Supervisory Board Member, Kanebo Cosmetics Inc. Jun. 2011 Vice President, Investor Relations Group, Corporate Strategy 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)
	Date of birth: May 22, 1959 Number of Kao shares held: 17,900 shares	
	Hideki Amano Outside Audit & Supervisory Board Member	Apr. 1976 Joined Arthur Andersen LLP Sept. 1980 Registered as Certified Public Accountant Jun. 1984 Resided in Dusseldorf Office of Arthur Andersen Sept. 1992 Representative employee, Inoue Saito Eiwa Audit Corporation Sept. 2011 Vice President (Audit Management), KPMG AZSA LLC; member, KPMG Global Audit Steering Group Jul. 2015 Executive Senior Partner, KPMG AZSA LLC Mar. 2017 Audit & Supervisory Board Member, Kao Corporation (current)
	Date of birth: Nov. 26, 1953 Number of Kao shares held: 4,000 shares Other material position(s) Certified Public Accountant Outside Director, TOPPAN FORMS CO., LTD. Outside Audit & Supervisory Board Member, Seiko Holdings Corporation Outside Audit & Supervisory Board Member, Ajinomoto Co., Inc.	
	Nobuhiro Oka Outside Audit & Supervisory Board Member	Apr. 1993 Registered as an attorney-at-law, joined Kajitani Law Offices Apr. 1997 Representative Partner, Takekawa & Oka Law Office Oct. 2004 Representative Partner, Takekawa, Oka & Yoshino Law Office Apr. 2012 Professor, Keio University Law School (current) Oct. 2013 Representative, Oka-Partners Law Office (current) Mar. 2014 Outside Audit & Supervisory Board Member, Kao Customer Marketing Co., Ltd. Jan. 2016 Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd. (current) Mar. 2018 Audit & Supervisory Board Member, Kao Corporation (current)
	Date of birth: Apr. 5, 1963 Number of Kao shares held: 1,600 shares Other material position(s) Attorney-at-Law Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd. Outside Director, Yamatane Corporation Professor, Keio University Law School	
	Takahiro Nakazawa Outside Audit & Supervisory Board Member	Oct. 1981 Joined PriceWaterhouse Tokyo Jun. 1983 Joined Aoyama Audit Corporation Mar. 1985 Registered as Certified Public Accountant Jul. 2001 Representative Partner, Chuo-Aoyama Audit Corporation Sept. 2006 Representative Partner, Arata Audit Corporation (currently, PricewaterhouseCoopers Arata LLC) Jul. 2018 Director, Nakazawa Certified Public Accountant Office (current) Mar. 2020 Audit & Supervisory Board Member, Kao Corporation (current)
	Date of birth: May 30, 1958 Number of Kao shares held: 200 shares Other material position(s) Certified Public Accountant Outside Audit & Supervisory Board Member, Tokyo Real Estate Holdings Co., Ltd.	

Executive Officers (As of March 25, 2022)



Yoshihiro Hasebe

President and Chief Executive Officer

Responsible for Human Capital Development
President of Kao Arts and Science Foundation



Toshiaki Takeuchi

Senior Managing Executive Officer

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



Tomoharu Matsuda

Senior Managing Executive Officer

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



Masakazu Negoro

Managing Executive Officer

Responsible for Management Strategy, Global
Senior Vice President, Procurement, Global
Responsible for Accounting and Finance



Yasushi Wada

Managing Executive Officer

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



Osamu Tabata

Managing Executive Officer

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



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.; Chairperson of the
Board, Molton Brown Limited



Hideaki Kubo

Managing Executive Officer

Senior Vice President, Research and Development,
Global



Toru Nishiguchi

Managing Executive Officer

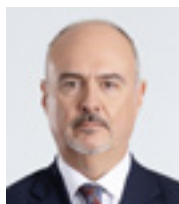
President, Consumer Products, Asia; Responsible for Consumer
Products - Merries Business; Chairperson of the Board and President,
Kao (China) Holding Co., Ltd.; Chairperson of the Board and President,
Kao Corporation Shanghai; Chairperson of the Board, Kao Commercial
(Shanghai) Co., Ltd.; Chairperson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



Satoru Tanaka

Managing Executive Officer

Senior Vice President, Corporate Strategy, Global
President, Consumer Products, Americas and EMEA
Chairperson of the Board, Kao USA Inc.



David J. Muenz

Managing Executive Officer

Senior Vice President, ESG, Global



Masahiro Katayose

Senior Executive Officer

President, Chemical Business, Global
Chairperson of the Board, Fatty Chemical (Malaysia)
Sdn. Bhd.
Chairperson of the Board, Pilipinas Kao, Inc.
Chairperson of the Board, Kao Chemicals Europe, S.L.



Hiroaki Yamaguchi

Senior Executive Officer

Vice President, Supply Chain Management -
Manufacturing Plant Center, Global
Responsible for Strategic Innovative Technology,
SCM, Global



Kotaro Nuriya

Senior Executive Officer

President, Consumer Products - Health & Beauty
Care Business, Global



Natsumi Hotta

Senior Executive Officer

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



Kenichi Yamauchi

Executive Officer

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



Ryoichi Harada

Executive Officer

Senior Vice President, Enterprise Information Solutions, Global



Hideichi Nitta

Executive Officer

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



Shigeo Nakai

Executive Officer

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



Hideki Mamiya

Executive Officer

Senior Vice President, Human Capital Development, Global
President, Kao Group Corporate Pension Fund
Chairperson of the Board, Kao America Inc.



Masaru Takeyasu

Executive Officer

Senior Vice President, Legal and Governance, Global



Atsushi Koizumi

Executive Officer

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



Motomitsu Hasumi

Executive Officer

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



Mami Murata

Executive Officer

Vice President, Corporate Strategy - Strategic Public Relations, Global



Akira Shimotoyodome

Executive Officer

President, Consumer Products - Life Care Business, Global



Karen B. Frank

Executive Officer

President, Consumer Products - Consumer Care, Americas and EMEA
President, Kao USA Inc.



Yoji Matsumoto

Executive Officer

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



Hiroyuki Terazaki

Executive Officer

Vice President, Research and Development, Global
Vice President, Research and Development - Strategy, Global



Dominic M. Pratt

Executive Officer

President, Consumer Products - Salon, Global
Chairperson of the Board, Oribe Hair Care, LLC
President, Kao Germany GmbH



Yasuhiro Ishikura

Executive Officer

Senior Vice President, Mid-term Strategy, Global

Chapter 4

ESG and Financial Data

External Evaluation (As of April 30, 2022)

Kao has been well-received every year across the globe. We have been selected as a triple A company in the three fields of climate change, forest, and water security for two consecutive years by the international non-profit

organization CDP.

For 16 consecutive years, we have been announced by the U.S. think-tank Ethisphere Institute as one of the “World’s Most Ethical Companies®.”



14/12,000 companies

Out of about 12,000 companies, there are 14 triple A companies, which represent companies with the highest scores across all fields, of which two are from Japan.

16 consecutive years

In Asia and Japan, Kao is the only company that has been selected as a triple A company for 16 consecutive years.



Socially Responsible Investment Index (As of April 30, 2022)

Kao has been included in the following leading indexes in recognition of having this credibility globally.



External Evaluation

	2016	2017	2018	2019	2020	2021
DJSI World	●	●	●	●	●	—
MSCI ESG Leaders Indexes	●	●	●	●	●	●
FTSE4 Good Index Series	●	●	●	●	●	●
CDP (Climate Change)	A-	A-	A-	A	A	A
CDP (Water Security)	A-	A	A	A	A	A
CDP (Forests, Timber)	A-	A-	A-	A-	A-	A
CDP (Forests, Palm Oil)	A-	A-	A-	A-	A	A
CDP (Supply Chain)	A	A	A	A	A	A
Bloomberg Gender-Equality Index	—	—	●	●	●	●
World's Most Ethical Companies®	●	●	●	●	●	●

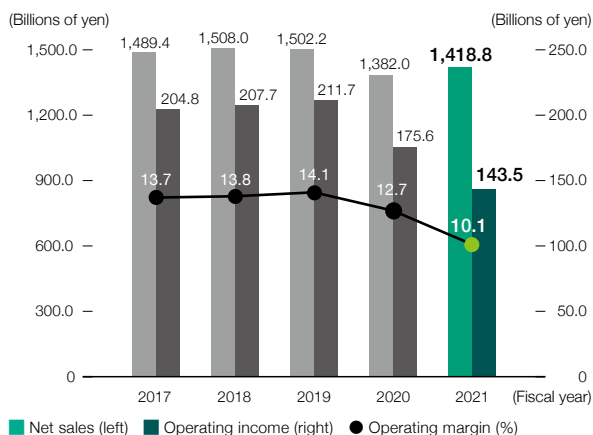


The FTSE4Good index series: www.ftse.com/products/indices/FTSE4Good
 MSCI: www.msci.com/

Financial and ESG Highlights

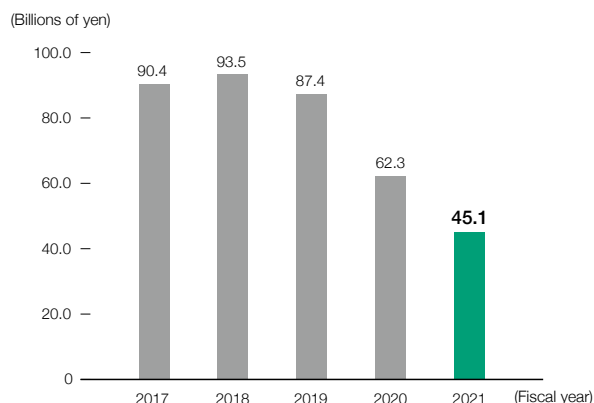
Financial Highlights

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



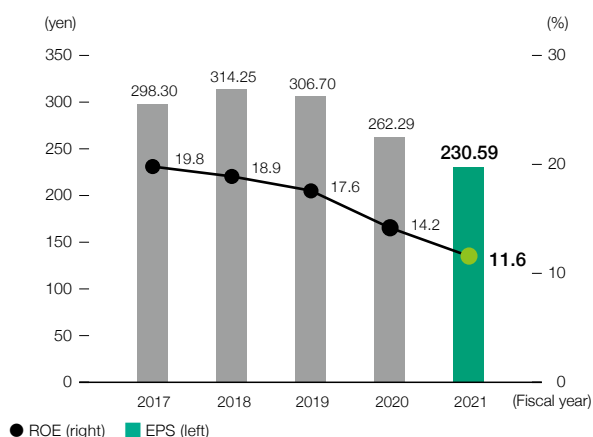
*1 As of the fiscal year ended December 31, 2020, the Company has changed its method of recognizing sales for some transactions from the gross amount to the net amount.

EVA^{*2}



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

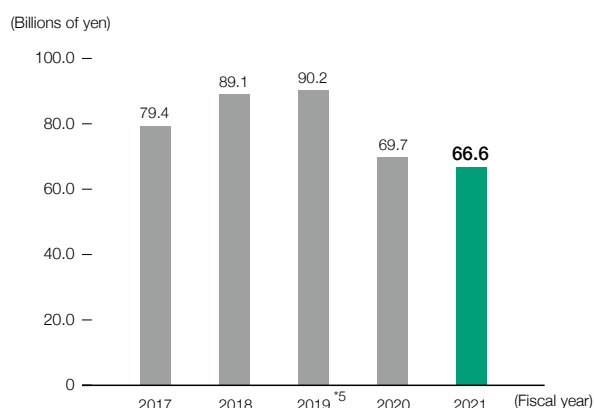
ROE^{*3}/EPS^{*4}



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

*4 Basic earnings per share

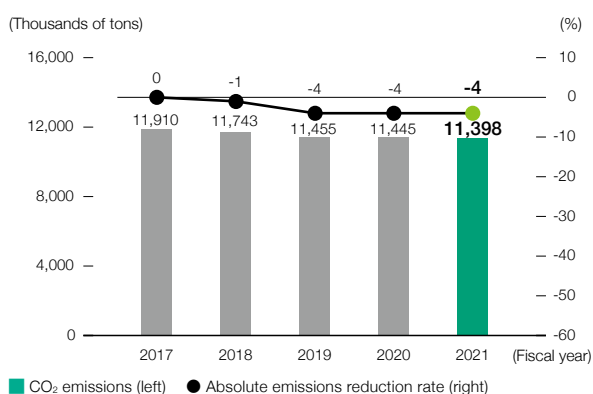
Trend in Capital Investments



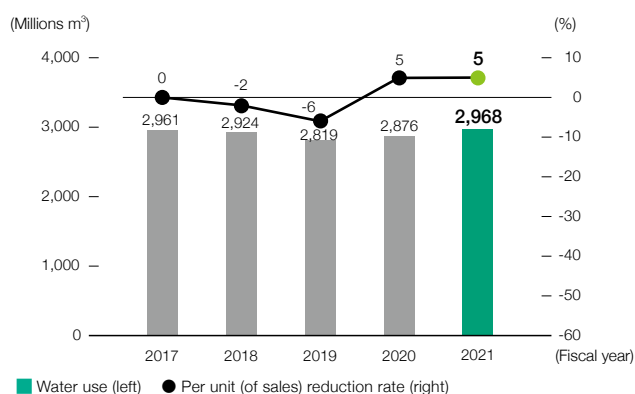
*5 Excludes right-of-use assets from the fiscal year ended December 31, 2019.

ESG Highlights

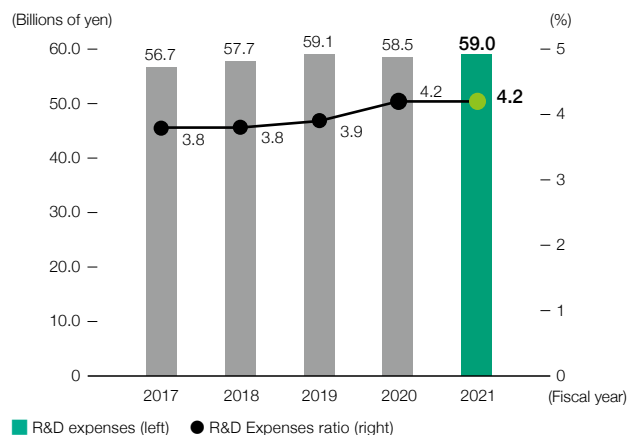
CO₂ Emissions across the Product Lifecycle^{*7}



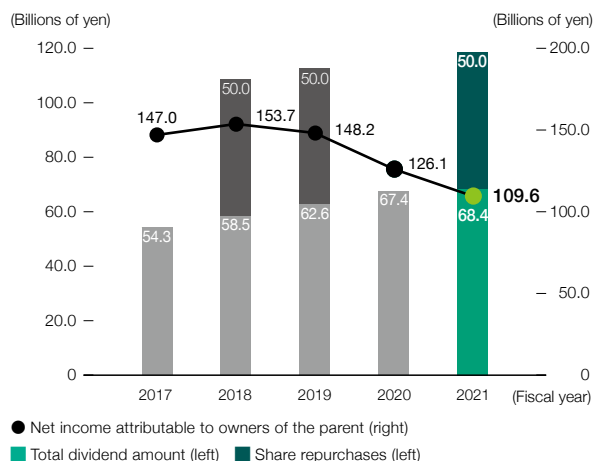
Water Use across the Product Lifecycle^{*8}



R&D Expenses/R&D Expenses Ratio

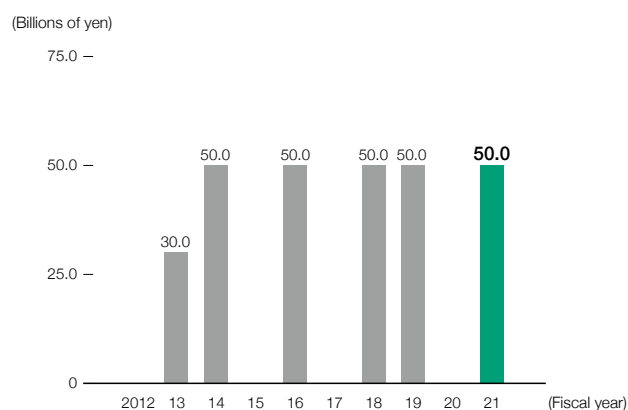


Net Income Attributable to Owners of the Parent/ Shareholder Returns^{*6}

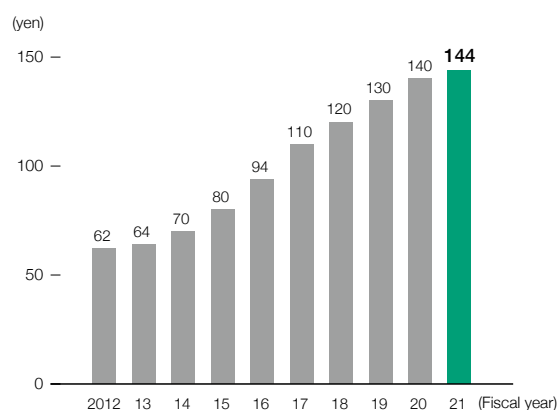


^{*6} Excludes repurchase of shares of less than one trading unit and shares acquired through the Board Incentive Plan Trust ("BIP Trust").

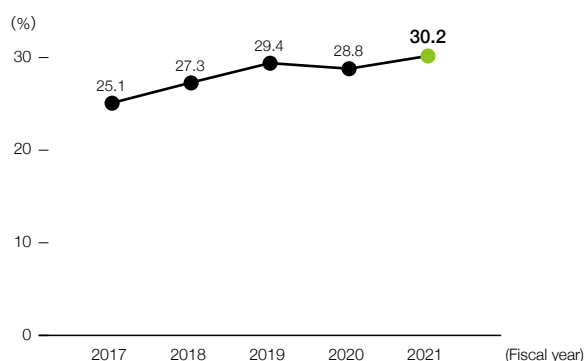
Status of Share Repurchases^{*6}



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.

Financial Data

Historical Data

IFRS

(Millions of yen)

	Dec. 2021	Dec. 2020	Dec. 2019	Dec. 2018	Dec. 2017	Dec. 2016	Dec. 2015
For the year:							
Economic Value Added (EVA®)	45,127	62,265	87,403	93,530	90,394	73,357	58,557
Net sales	1,418,768	1,381,997	1,502,241	1,508,007	1,489,421	1,457,610	1,474,550
Operating income	143,510	175,563	211,723	207,703	204,791	185,571	167,318
Operating margin (% of sales)	10.1	12.7	14.1	13.8	13.7	12.7	11.3
Income before income taxes	150,002	173,971	210,645	207,251	204,290	183,430	166,038
Net income	111,415	128,067	150,349	155,331	148,607	127,889	105,952
Net income attributable to owners of the parent	109,636	126,142	148,213	153,698	147,010	126,551	105,196
Net cash flows from operating activities	175,524	214,718	244,523	195,610	185,845	184,307	181,672
Net cash flows from investing activities	(67,232)	(61,941)	(94,266)	(157,895)	(96,146)	(88,639)	(74,124)
Free cash flow	86,346	131,161	128,539	37,715	89,699	95,668	107,548
Net cash flows from financing activities	(141,573)	(87,065)	(126,166)	(108,579)	(53,244)	(95,043)	(20,773)
Capital expenditures	87,766	86,149	113,387	89,097	79,355	89,900	82,848
Depreciation and amortization	87,341	86,080	83,369	60,662	54,508	51,116	57,423
Research and development expenses	58,993	58,509	59,143	57,673	56,703	54,567	52,699
(% of sales)	4.2	4.2	3.9	3.8	3.8	3.7	3.6
Advertising	74,847	71,984	77,545	80,274	89,935	97,437	94,745
(% of sales)	5.3	5.2	5.2	5.3	6.0	6.7	6.4
At year end:							
Total assets	1,704,007	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	965,137	923,687	857,695	822,360	806,381	679,842	680,996
Ratio of equity attributable to owners of the parent to total assets (%)	56.6	55.5	51.9	56.3	56.5	50.8	51.9
Number of employees (people)	33,507	33,409	33,603	33,664	33,560	33,195	32,282
Per share:							
Basic earnings per share (EPS) (yen)	230.59	262.29	306.70	314.25	298.30	253.43	209.82
Annual cash dividends per share (yen)	144.00	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)	475,000	482,000	482,000	488,700	495,000	504,000	504,000
Share price at the end of the year (yen)	6,019	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) (%)	11.6	14.2	17.6	18.9	19.8	18.6	16.1
Ratio of income before income taxes to total assets (ROA) (%)	8.9	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.

6. Numbers in parentheses are negative. The same applies to the following.

Japanese GAAP

(Millions of yen)

	Dec. 2015	Dec. 2014	Dec. 2013	Dec. 2012 (Restated)	Dec. 2012
For the year:					
Net sales	1,471,791	1,401,707	1,315,217	1,220,359	1,012,595
Business segments					
Consumer Products Business	1,222,831	1,154,489	1,091,919	1,019,416	833,150
Chemical Business	288,456	288,022	261,192	236,473	208,071
Eliminations	(39,496)	(40,804)	(37,894)	(35,530)	(28,626)
Geographic areas					
Japan	1,019,016	997,309	959,405	933,767	720,789
Asia	281,533	244,903	199,655	160,005	159,857
Americas	137,827	124,216	108,599	89,998	89,998
Europe	154,350	152,056	134,168	110,519	110,519
Eliminations	(120,935)	(116,777)	(86,610)	(73,930)	(68,568)
Operating income	164,380	133,270	124,656	111,791	101,567
Net income attributable to owners of the parent	98,862	79,590	64,764	53,107	52,765
Capital expenditures	83,414	68,484	63,687	—	41,929
Depreciation and amortization	73,623	79,660	77,297	—	59,788
Cash flows	135,394	125,436	109,497	—	80,200
Research and development expenses	51,987	51,739	49,650	—	37,493
(% of sales)	3.5	3.7	3.8	—	3.7
Advertising	94,496	92,410	86,406	—	67,045
(% of sales)	6.4	6.6	6.6	—	6.6
At year end:					
Total assets	1,281,869	1,198,233	1,133,276	—	1,030,347
Net worth	675,608	658,232	628,709	—	582,699
Number of employees (people)	33,026	32,707	33,054	—	33,350
Per share:					
Net income per share (EPS) (yen)	197.19	156.46	126.03	101.77	101.12
Annual cash dividends per share (yen)	80.00	70.00	64.00	—	62.00
Net worth (yen)	1,347.29	1,313.63	1,227.54	—	1,116.61
Weighted average number of shares outstanding during the period (in thousands of shares)	501,352	508,687	513,880	—	521,824
Key financial ratios:					
Return on sales (%)	6.7	5.7	4.9	4.4	5.2
Return on equity (ROE) (%)	14.8	12.4	10.7	9.5	9.4
Net worth ratio (%)	52.7	54.9	55.5	—	56.6

- 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.
- 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.

Consolidated Statement of Financial Position

(Millions of yen)

	Current fiscal year (As of December 31, 2021)	Previous fiscal year (As of December 31, 2020)
Assets		
Current assets		
Cash and cash equivalents	336,069	353,176
Trade and other receivables	216,209	200,087
Inventories	228,070	197,641
Other financial assets	6,094	7,257
Income tax receivables	2,508	2,085
Other current assets	20,842	18,150
Total current assets	809,792	778,396
Non-current assets		
Property, plant and equipment	428,609	430,914
Right-of-use assets	144,057	149,543
Goodwill	183,498	177,031
Intangible assets	52,636	48,256
Investments accounted for using the equity method	10,050	8,657
Other financial assets	23,588	23,608
Deferred tax assets	41,348	42,274
Other non-current assets	10,429	6,937
Total non-current assets	894,215	887,220
Total assets	1,704,007	1,665,616
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	229,086	215,842
Bonds and borrowings	6,156	30,465
Lease liabilities	19,929	19,787
Other financial liabilities	6,329	6,571
Income tax payables	24,078	28,109
Provisions	2,041	1,811
Contract liabilities	31,143	23,098
Other current liabilities	103,135	99,721
Total current liabilities	421,897	425,404
Non-current liabilities		
Bonds and borrowings	121,581	97,229
Lease liabilities	121,016	126,725
Other financial liabilities	7,070	7,862
Retirement benefit liabilities	29,843	51,858
Provisions	8,187	9,175
Deferred tax liabilities	5,830	4,584
Other non-current liabilities	4,706	4,585
Total non-current liabilities	298,233	302,018
Total liabilities	720,130	727,422
Equity		
Share capital	85,424	85,424
Capital surplus	105,633	106,618
Treasury shares	(3,960)	(3,865)
Other components of equity	(3,723)	(43,376)
Retained earnings	781,763	778,886
Equity attributable to owners of the parent	965,137	923,687
Non-controlling interests	18,740	14,507
Total equity	983,877	938,194
Total liabilities and equity	1,704,007	1,665,616

Consolidated Statement of Income

	(Millions of yen)	
	Current fiscal year (January 1, 2021–December 31, 2021)	Previous fiscal year (January 1, 2020–December 31, 2020)
Net sales	1,418,768	1,381,997
Cost of sales	(845,574)	(791,304)
Gross profit	573,194	590,693
Selling, general and administrative expenses	(427,045)	(415,826)
Other operating income	17,304	15,801
Other operating expenses	(19,943)	(15,105)
Operating income	143,510	175,563
Financial income	6,470	1,711
Financial expenses	(2,598)	(5,839)
Share of profit in investments accounted for using the equity method	2,620	2,536
Income before income taxes	150,002	173,971
Income taxes	(38,587)	(45,904)
Net income	111,415	128,067
Attributable to		
Owners of the parent	109,636	126,142
Non-controlling interests	1,779	1,925
Net income	111,415	128,067
Earnings per share		
Basic earnings per share (Yen)	230.59	262.29
Diluted earnings per share (Yen)	230.57	262.25

Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	Current fiscal year (January 1, 2021–December 31, 2021)	Previous fiscal year (January 1, 2020–December 31, 2020)
Net income	111,415	128,067
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	390	168
Remeasurements of defined benefit plans	11,729	16,365
Share of other comprehensive income of investments accounted for using the equity method	330	25
Total of items that will not be reclassified to profit or loss	12,449	16,558
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	40,876	(9,942)
Share of other comprehensive income of investments accounted for using the equity method	392	(167)
Total of items that may be reclassified subsequently to profit or loss	41,268	(10,109)
Other comprehensive income, net of taxes	53,717	6,449
Comprehensive income	165,132	134,516
Comprehensive income attributable to:		
Owners of the parent	161,686	132,941
Non-controlling interests	3,446	1,575
Comprehensive income	165,132	134,516

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, 2020	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)
Net income	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	39,690	(0)
Comprehensive income	—	—	—	—	39,690	(0)
Disposal of treasury shares	—	(334)	51,697	(89)	—	—
Purchase of treasury shares	—	—	(51,792)	—	—	—
Share-based payment transactions	—	370	—	—	—	—
Dividends	—	—	—	—	—	—
Changes in the ownership interest in subsidiaries	—	(1,021)	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(4)	—	—
Total transactions with the owners	—	(985)	(95)	(93)	—	—
December 31, 2021	85,424	105,633	(3,960)	175	(9,678)	(0)

(Millions of yen)							
	Equity attributable to owners of the parent						
	Other components of equity				Total	Non-controlling interests	Total equity
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings			
January 1, 2020	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
Net income	—	—	—	109,636	109,636	1,779	111,415
Other comprehensive income	715	11,645	52,050	—	52,050	1,667	53,717
Comprehensive income	715	11,645	52,050	109,636	161,686	3,446	165,132
Disposal of treasury shares	—	—	(89)	(51,273)	1	—	1
Purchase of treasury shares	—	—	—	—	(51,792)	—	(51,792)
Share-based payment transactions	—	—	—	—	370	—	370
Dividends	—	—	—	(67,794)	(67,794)	(797)	(68,591)
Changes in the ownership interest in subsidiaries	—	—	—	—	(1,021)	1,584	563
Transfer from other components of equity to retained earnings	(659)	(11,645)	(12,308)	12,308	—	—	—
Total transactions with the owners	(659)	(11,645)	(12,397)	(106,759)	(120,236)	787	(119,449)
December 31, 2021	5,780	—	(3,723)	781,763	965,137	18,740	983,877

Consolidated Statement of Cash Flows

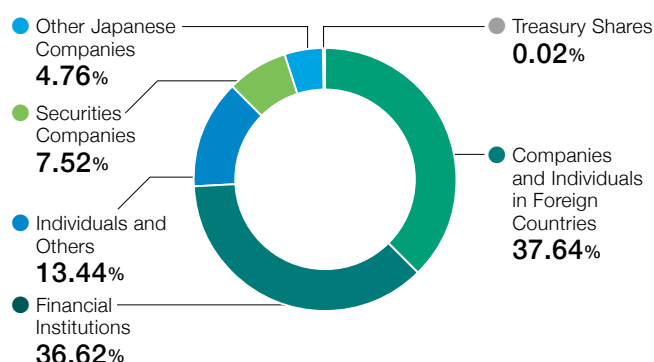
	(Millions of yen)	
	Current fiscal year (January 1, 2021–December 31, 2021)	Previous fiscal year (January 1, 2020–December 31, 2020)
Cash flows from operating activities		
Income before income taxes	150,002	173,971
Depreciation and amortization	87,341	86,080
Interest and dividend income	(1,307)	(1,571)
Interest expense	2,036	2,533
Share of profit in investments accounted for using the equity method	(2,620)	(2,536)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	4,458	3,301
(Increase) decrease in trade and other receivables	(4,440)	6,443
(Increase) decrease in inventories	(20,508)	646
Increase (decrease) in trade and other payables	8,682	(4,227)
Increase (decrease) in retirement benefit liabilities	(22,787)	(28,818)
Other	19,192	31,852
Subtotal	220,049	267,674
Interest received	1,191	1,516
Dividends received	2,222	2,060
Interest paid	(2,039)	(2,650)
Income taxes paid	(45,899)	(53,882)
Net cash flows from operating activities	175,524	214,718
Cash flows from investing activities		
Payments into time deposits	(11,418)	(14,053)
Proceeds from withdrawal of time deposits	12,930	19,661
Purchase of property, plant and equipment	(59,951)	(59,396)
Purchase of intangible assets	(11,568)	(10,454)
Other	2,775	2,301
Net cash flows from investing activities	(67,232)	(61,941)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	440	(41)
Proceeds from long-term borrowings	30,091	1,080
Repayments of long-term borrowings	(31,380)	(48)
Proceeds from issuance of bonds	200	24,939
Redemption of bonds	(12)	(24,942)
Repayments of lease liabilities	(21,266)	(20,912)
Purchase of treasury shares	(51,792)	(28)
Dividends paid to owners of the parent	(67,859)	(64,987)
Dividends paid to non-controlling interests	(802)	(1,235)
Other	807	(891)
Net cash flows from financing activities	(141,573)	(87,065)
Net increase (decrease) in cash and cash equivalents	(33,281)	65,712
Cash and cash equivalents at the beginning of the year	353,176	289,681
Effect of exchange rate changes on cash and cash equivalents	16,174	(2,217)
Cash and cash equivalents at the end of the year	336,069	353,176

Corporate Information (As of December 31, 2021)

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:	475,000,000 shares
Number of Shareholders:	123,029
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)	86,788	18.28
Custody Bank of Japan, Ltd. (Trust Account)	26,998	5.69
STATE STREET BANK AND TRUST COMPANY 505223	14,628	3.08
SMBC Nikko Securities Inc.	13,962	2.94
THE BANK OF NEW YORK 134104	8,232	1.73
STATE STREET BANK WEST CLIENT – TREATY 505234	8,101	1.71
SSBTC CLIENT OMNIBUS ACCOUNT	7,353	1.55
Japan Securities Finance Co., Ltd.	6,835	1.44
Nippon Life Insurance Company	6,691	1.41
National Mutual Insurance Federation of Agricultural Cooperatives	6,334	1.33

(Note) 1. The number of shares may include the number of shares related to the trust business or the stock custody business.

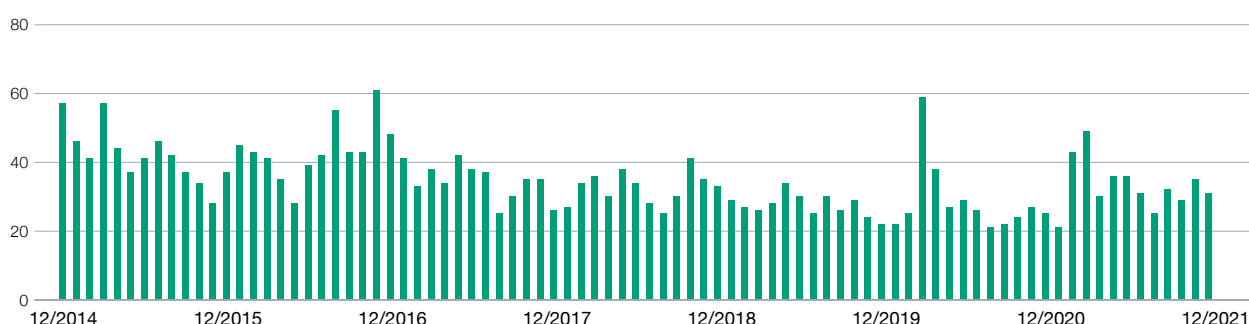
2. The shareholding ratio is calculated based on the total number of issued shares minus the number of treasury stock.

Share Price Range and Trading Volume (Tokyo Stock Exchange)

Share Price Range (Yen)



Monthly Trading Volume (Million shares)

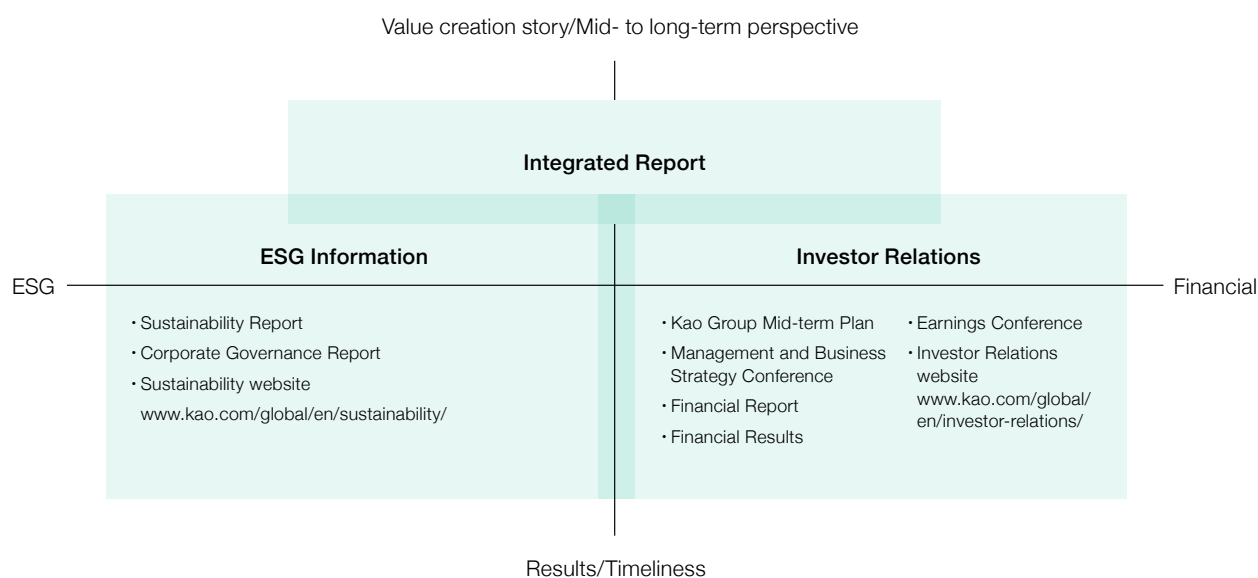


Corporate Overview

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:	85.4 billion yen
Employees:	8,508 (Number of employees in Kao Group consolidated companies: 33,507)
Subsidiaries:	111 (of which 93 are subsidiaries outside Japan)
Associates:	5 (of which 2 are associates outside Japan)



Information Disclosure Framework



Digital Media

To find out more about Kao, see:

Kao Group Official Website

www.kao.com/global/en/



Kao

Kirei – Making Life Beautiful



Kao Corporation

14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo
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Corporate Strategy

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