

KaO

Kao  
Integrated Report  
2023

For the year ended  
December 31,  
2022

KaO

Kirei – Making Life Beautiful

Kao Corporation

14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku,  
Tokyo 103-8210, Japan  
Corporate Strategy

For the year ended December 31, 2022



Sustainability as the only path



Theme  
A beginning of change

Introduction

Contents ..... 1

“Children want a world where all life lives in harmony” .... 3

Our Purpose ..... 5

Top Message ..... 7

Our Business Overview ..... 13

A Legacy of Advancing Innovation and Creating Unique Value ..... 15

Sources of Our Innovation ..... 19

Chapter 1  
Our Value Creation:  
Company-wide endeavors  
to protect future lives

Value Creation Model ..... 23

Commitment to the Future ..... 25

Materiality ..... 31



Chapter 2  
Our Strategy:  
Accelerating transformation

Achievements and Challenges in the 2<sup>nd</sup> Year of K25 ..... 35

Key Strategies for Enhancing Our Corporate Value ..... 36

- Deepen EVA-driven management ..... 37
- Deliver on ESG ambitions ..... 40
- Parallel business transformation ..... 43
- Focused growth in 5 business fields ..... 47
- Accelerate digital transformation ..... 61
- Energize our people ..... 63

Value Chain Reform ..... 67

Our People: New Era, New Challenges ..... 77

Chapter 3  
Corporate Governance:  
The basis of our management

Messages from Outside Directors and an Outside Audit & Supervisory Board Member ..... 85

Corporate Governance ..... 87

Risk and Crisis Management ..... 99

Chapter 4  
Data Section

External Evaluation/ Financial and ESG data ..... 104

Corporate Information/Stock Information ..... 108

Editorial Policy and Information Disclosure Framework ..... 109

# Children want a world where all life lives in harmony Kao seeks to build the future of our children's dreams



## In sync with nature

Bozhidara Bogdanova  
Dimitrova (9)

I have depicted two hands—one human and one belonging to nature. In the human hand there are people and garbage, and in nature's hand there are plants and animals. The human hand holds the universe, and nature's hand holds the sea. I drew this to show people that they can help make nature more sustainable by stopping to pollute it.



## Help to plant mangroves

Woraphitcha Phuangprakhon (10)

Mangrove forests are inhabited by various animals, and they are a line to prevent the washing of the sea as well. In my painting, my friend and I are helping to plant mangroves to provide the animals with homes, food and a good climate. We have a great time, and we are proud of our efforts to protect the mangrove forests. I promise I will be environmentally friendly.

## The case for environment and land

Ahoora Bakhtiari (9)

We should be diligent in preserving the environment. My painting was about giving a message to my friends to love the earth. In my painting, someone is cleaning the earth and every person is doing something to make the planet happy.



## The future of the world that we all support together

Shuka Matsumoto (10)

The Earth does not just belong to people. This planet is also home to other animals, plants, fish and insects. In this picture, many different living things are supporting the shining Earth in harmony together. Environmental destruction is an issue in the present day, so I expressed my feelings in this picture that people need to think seriously about coexisting with many different living things.



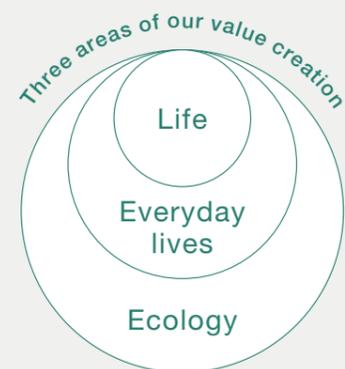
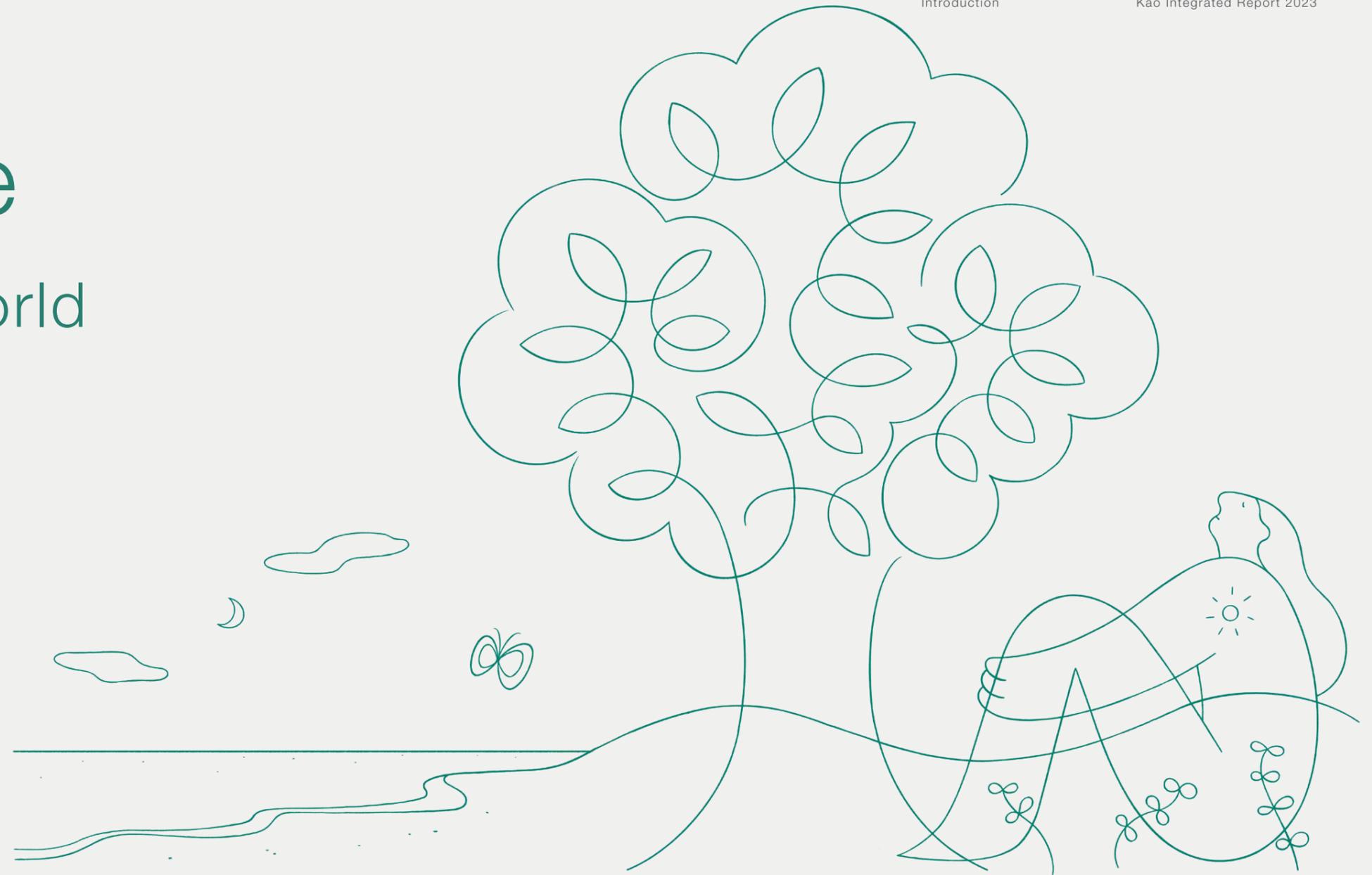
Kao International Environment Painting Contest for Children started in 2010. This is a special contest where children express everyday lives from an ecology perspective and their future vision of the planet through creative paintings. For this 13<sup>th</sup> contest, we received 13,214 paintings and messages from all around the world. These children's genuine passion for the future represents the origin of our purpose and our Commitment to the Future. The expression of their hopes and dreams through art inspires us and we are confident it will also inspire others to take action across the globe.



WEB Kao Group Official Website "Kao International Environment Painting Contest for Children"  
[www.kao.com/global/en/sustainability/society/painting-contest/](http://www.kao.com/global/en/sustainability/society/painting-contest/)

# Our Purpose

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



## Commitment to the Future

- 1 Regenerative Lifestyles  
Plan for and enable regeneration.
- 2 Toward Carbon Negative  
Move beyond CO<sub>2</sub> reduction and unlock CO<sub>2</sub> recycling
- 3 Zero Waste  
Waste nothing. Period.
- 4 Precision Life Care  
Every person is unique. Our solution will be too.
- 5 Leave No One Behind  
Innovation can be for everyone. We won't stop.

K25 Vision

Sustainability  
as the only path  
Protecting  
future  
lives



## Strategic Approach

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



## Top Message

In a world where human demands outpace the world's limited resources, we strive to create a "Kirei" lifestyle for all.

*Y. Haselbe*

Representative Director  
President and Chief Executive Officer

## To our Stakeholders

The pandemic of 2020 brought unprecedented human and health crises, leaving many people around the world in extremely difficult circumstances. **It highlighted how interdependent we are in this finite space on earth.** The foundation of our daily lives hinges on our ability to live without fear or worry. That is why I believe **it is**

**more important than ever that we truly appreciate the value of each day and cherish the moments that bring us joy.**

At Kao, our goal is to safeguard people's daily lives and delight them with our product experience. We are simultaneously committed to protecting the

environment, preventing illness and stresses, and creating a world where all life lives in harmony. This is the "Kirei" world we aspire to achieve as we position ourselves as a company that "protects future lives" and proactively shape a sustainable society for all.

# Our Commitment to Integrity



Tomiro Nagase, the founder of Kao left us with the words *“Good fortune is given only to those who work diligently and behave with integrity.”* This timeless message from our predecessor holds immense significance for Kao today. It inspires us to stay true to our values and uphold the principles of hard work and honesty.

His message reminds us that our actions have consequences, and the choices we make shape our future. **At Kao, we work diligently in pursuit of Yoki-Monozukuri and bringing joy to our customers. Customer satisfaction is our reward** and reflects the value of our work. As we continue to grow as individuals and as a company, customer appreciation motivates and drives us forward. The message from our founder is ever-present as we go about our daily work – guiding us to take on challenges and make a positive impact on the world.

The importance of remaining true to our roots while embracing new values relevant in today’s rapidly changing world is well established at Kao. As our business environment continues to change, we must be prepared to handle unexpected challenges with strength and resilience. The recent sharp increase in raw material prices is a case in point, where we learned that success favors only those who are prepared. By staying agile and adapting to change, we will continue to thrive in a dynamic and unpredictable business landscape.

To succeed in business, it is imperative that **we remain tuned into the shifting tides of the market and adapt our strategy**. We are not alone in the vast global economy; there are countless great companies vying for the trust of customers. To rise above the competition, we must present compelling reasons for customers to choose us perhaps by being the most trusted company in a region or the “first and only choice” in moments of hardship. Customers buy from trusted companies. **We must continue to earn this trust to in order to become an indispensable company in a sustainable society.** Our journey is ongoing as we pursue this goal with determination.

# Maximizing our corporate value

To enhance the value of our company, the management team has shared our strategic areas of focus with all members of the Kao Group. Our top priority is to revive our EVA (economic value added) management approach to maximize profits, with targeted strategies for each business segment. Additionally, we will prioritize ESG (environmental, social, and governance) considerations to increase our future value as a company. We understand that pursuing only short-term economic goals is not sustainable or supported by society, so we will also concentrate on improving our current businesses while creating new business opportunities. Our commitment to these twin goals guides us as we move forward into the future.

As part of this, we are committed to keeping our stakeholders informed of the progress of our initiatives across **our five business segments**.

Our Chemical Business is dedicated to creating sustainable industries. Our Hygiene and Living Care Business offers products that support people’s daily lives. Our Health and Beauty Care Business aims to support healthy lifestyles and well-being, while our Cosmetics Business offers products that empower individuals to express themselves and live vibrantly. Finally, our Lifecare Business focuses on protecting future lives and we will ensure to pursue this goal. **All of these efforts are underpinned by two critical drivers: a commitment to leveraging digital technology to connect people with the right products and information, and our ability to unlock the strength and potential of our diverse, global team.**



# The power of open dialogue

At Kao, we have long embraced Diversity, Equity, and Inclusion as key principles. Our corporate philosophy, “The Kao Way,” embodies this spirit. The principles: how we behave, state **“We care for the people & the planet”**, and **“We trust, respect and need each other”** recognizing individual differences and honoring the wisdom that each unique perspective brings. **“We act with courage”**, creating fair opportunities for those who seek challenge and growth.

The Kao Way places great importance on open dialogue and communication across all levels of management. We don’t believe in addressing each other by executive titles for example; instead, we simply refer to one another by name and the honorific -san, as is common in Japanese culture. This reflects our belief that titles denote roles and responsibilities, not authority. **We communicate with each other on a level playing field, conducting open and fair dialogue.** Our culture of inclusivity and collaboration is deeply cherished and has served us well, fostering diverse opinions and triggering “chemical reactions” and innovations that propel us forward in new directions. Indeed, the COVID-19 pandemic somewhat weakened our culture of open discussion and dialogue. However, we are steadfastly committed to regaining lost ground and dramatically increasing the potential of our employees.



## Mastering the art of quality and speed

We pride ourselves at Kao on our **unique approach to matrix management** – enabling us to acquire knowledge and expertise from various businesses and leverage collective wisdom across the organization. This approach has allowed us to work collaboratively and efficiently, historically resulting in the creation of innovative new business models.

However, as the market landscape rapidly changes, we have become acutely aware of the need to balance speed with quality. With the growth of the company, individual organizations have become more siloed and focused on their responsibilities, leading to less

collaboration and cooperation across internal groups. **To address this challenge, we are implementing Scrum-style team collaboration and management.** The more compact and agile, delivery approach enables participation by key internal leaders and fast-tracking of results.

The impact of this change has simplified management styles and expedited business results at unprecedented speed. Teams across the company are questioning the status quo, exploring new approaches and propelling us forward.

The best way to predict the future is to create it



Looking back at Kao's history, our most progressive era was arguably the twenty years starting in 1987. We introduced *Attack*, world's first compact laundry detergent and *Quickle Wiper*, which revolutionized floor cleaning. *Bioré Nose Pore Pack Sheet*, was launched to unclog skin pores. *MegRhythm* introduced a completely new category of steam heating technology, and *Blaune Foam Hair Color* transformed hair dyeing. We also launched *Curél*, a product range and brand specially formulated for delicate and sensitive skin. **These innovations showcase our ability to change norms and elevate consumer expectations.** Even today, these products are in use, supporting the daily lives of

our valued customers. To maintain our longstanding reputation for innovation, we must continue to question norms and conventions. **While we will continue to improve on existing products, our true and unique strength lies in our ability to create entirely new categories.** Moving forward, our goal is to more deliberately tap into that strength and pave the way for creating new market opportunities. To achieve this, we will execute structural and management reforms within our current business, while also exploring new fields of business that positively impact society.

## To be an essential company in the world

The Mid-term Plan 2025 (K25) is designed to achieve two strategic objectives: first, to focus on our current business and implement structural reforms through "Reborn Kao" initiatives, and second, to establish new business fields and categories that align with our future strategy, referred to as "Another Kao" initiatives. What unites this parallel approach is a focus on unique, state-of-the-art technology to drive global expansion. **We are committed to fostering growth in both approaches to achieve our vision.**

**As we strive for continued global expansion, Kao's core value of compact innovation will continue to take center stage.** This means achieving maximum impact with minimum resources, emphasizing efficient resource management and timely product delivery. In a rapidly changing world, global sustainability goals

demand reduced consumption. We remain pioneers in this regard, leading by example by maximizing manufacturing results and simultaneously minimizing resource inputs. This is increasingly enabling Kao to provide personalized products and services in full harmony with nature.

We are also clear that we cannot achieve the world we aspire to on our own. **Our focus must be on co-creation, not competition.** Collaboration and connection with other companies, each leveraging our unique strengths, is crucial to success. **Guided by our founder's evergreen wisdom, Kao's journey towards a "Kirei life for all" has no finish line.** We are committed in perpetuity to overcoming the most challenging obstacles to push forward with unwavering determination.

## Corporate Philosophy: The Kao Way

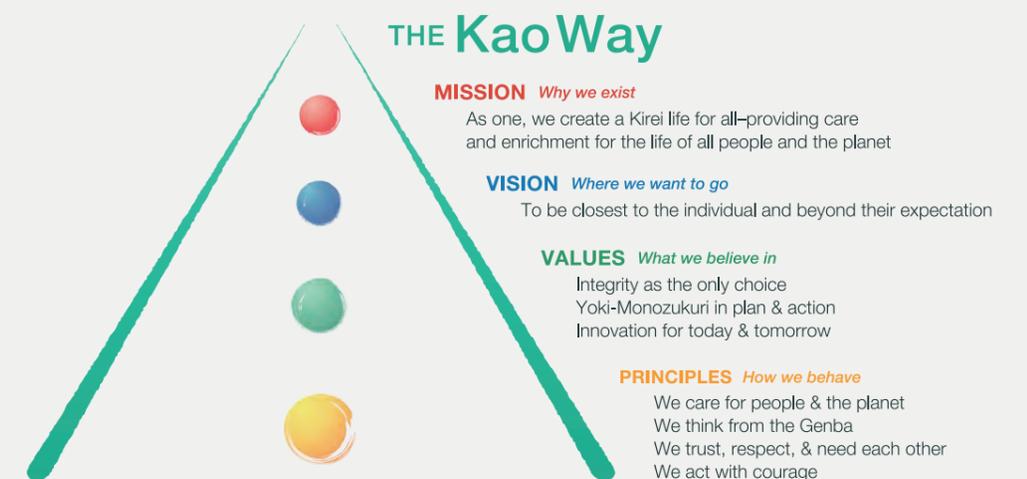
The Kao Way embodies our corporate philosophy. It was established in 2004 to take the spirit and culture cultivated by our predecessors and pass them down to the next generation. We updated the Kao Way in 2021 with the aim to transform the company. We included the phrase "people and the planet" in our Mission, adding the phrase "beyond their expectation" in our Vision and including "We act with courage" within our Principles.

This corporate philosophy is deeply ingrained in every employee and brings consistency to all our activities. The Kao Way is the driving force that integrates our diverse assets and our employees' strengths as we tackle social and business challenges. It also serves as

a guide that links individual growth with the growth of the company and our social contributions. In this way, it makes our work more rewarding and instills us with a sense of purpose.

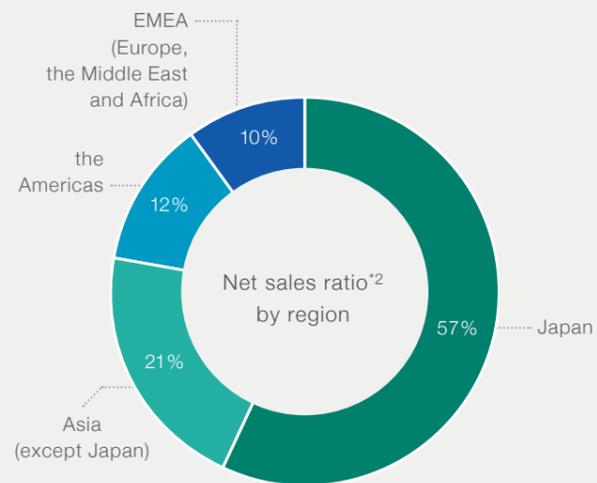
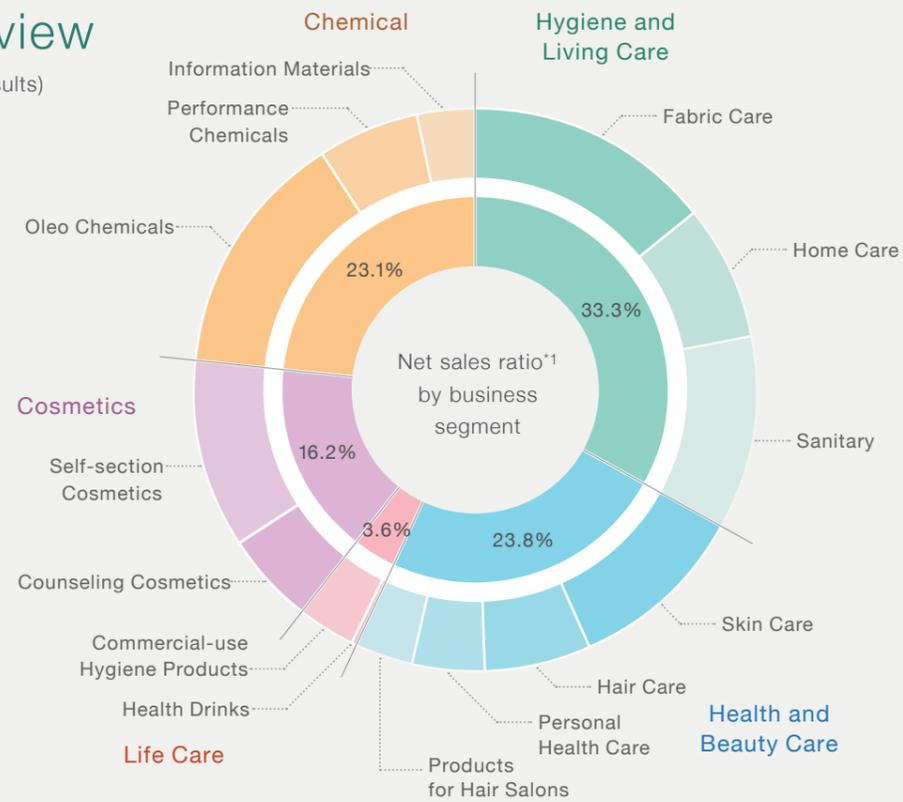
The foundations for shared dialogue between all employees worldwide.

- **Our Mission** indicates our reason for being here
- **Our Vision** expresses our future direction
- **Our Values** represent our core tenets
- **Our Principles** describe what we cherish



# Our Business Overview

(FY2022 results)



Ratio of net sales<sup>2</sup> outside Japan by business segment

Hygiene and Living Care 28%	Health and Beauty Care 46%
Fabric Care 19%	Skin Care 45%
Home Care 10%	Hair Care 33%
Merries 56%	Personal Health Care 7%
Sanitary *except Merries 56%	Products for Hair Salons 100%
Life Care *Commercial-use only 24%	Cosmetics 36%
G11 49%	Chemical 65%
R8 11%	Oleo Chemicals 87%
	Performance Chemicals 54%
	Information Materials 53%

\* 1 Share of net sales is calculated based on sales to customers  
\* 2 Categorized based on location of distributors

# Corporate History and Net Sales Growth

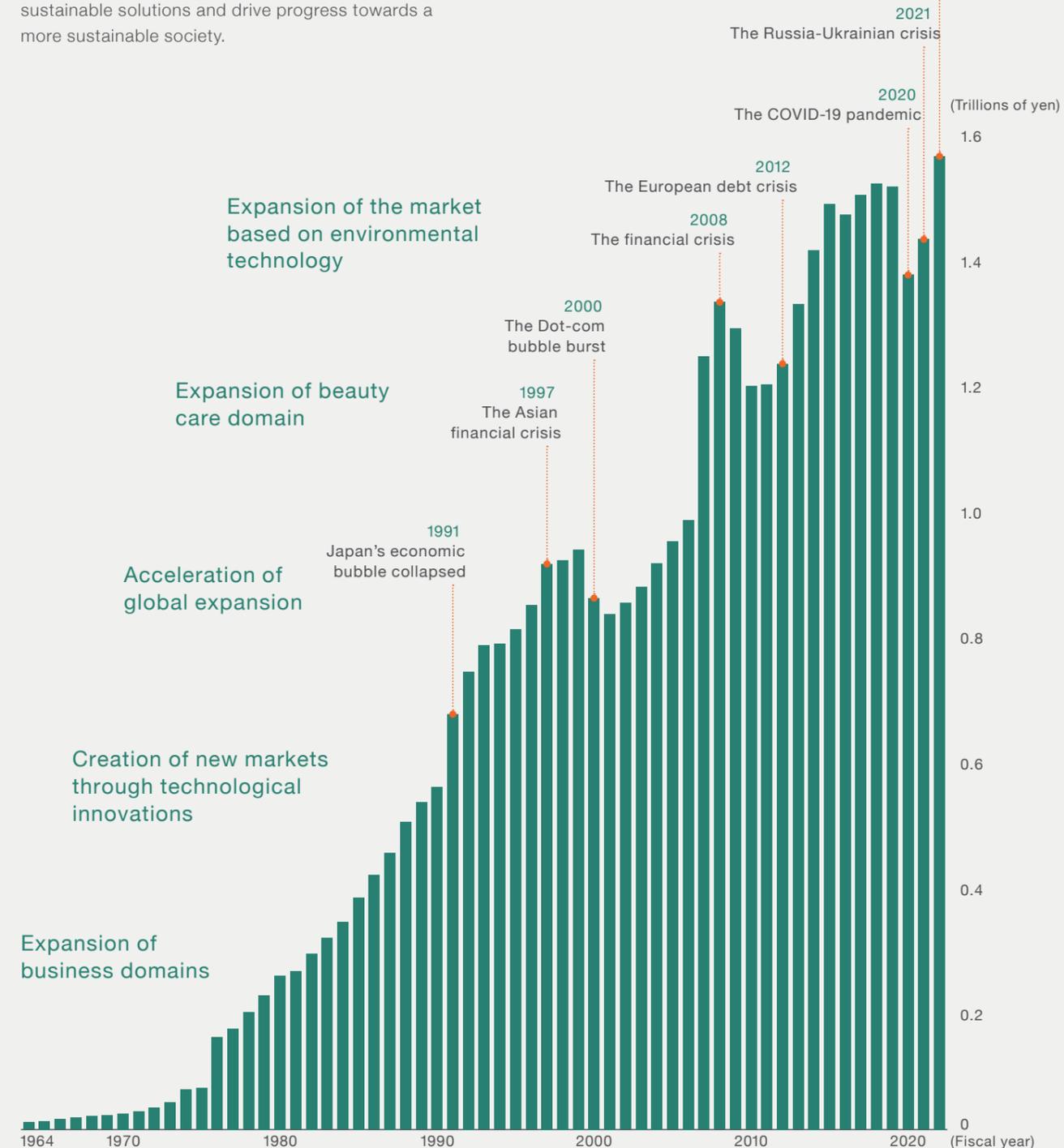
Since 1887, Kao has pursued growth by expanding its business domains and pioneering new markets globally. In 2009, Kao made a significant commitment to environmental sustainability through the Kao Environmental Statement. Today, we continue to prioritize environmental technology to develop sustainable solutions and drive progress towards a more sustainable society.

**2022 results**

Operating income: **110.1** billion yen

Net sales: **1,551.1** billion yen

Economic Value Added (EVA®): **14.7** billion yen



Expansion of the market based on environmental technology

Expansion of beauty care domain

Acceleration of global expansion

Creation of new markets through technological innovations

Expansion of business domains

# A Legacy of Advancing Innovation and Creating Unique Value

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



**Consumer awareness/needs**

- Spread of the act of washing the body and clothing with understanding of the efficacy of cleansing
- Along with the enhancement in living standards due to economic growth, growing need for more convenient life that incorporate new things
- Penetration and expansion of hygiene habits and lifestyles seeking comfort
- With women's social advancement, awareness of beauty and caring for hair and skin has improved

- Increase in needs for streamlining housework with the rise in double-income households
- Further increase in awareness for cleanliness owing to changes in the living environment
- Expansion from family use to personal use
- Increasing trend toward saving time in busy daily life owing to women's enhanced participation in society
- Increase in awareness of sensitive skin care owing to stress and allergies

**Game change**

High-quality Japan-made bath soap	Keeps hairstyles firm	Carbonated bath bombs	Promotes blood circulation and prevents hair loss	Easy cleaning at home	Just a quick wipe to remove makeup
Prevents skin from feeling tight	Mild to skin and suitable for children	Simple approach that collects all dust and hair	Unclogs dirt of pores of the nostrils		
1890	1976	1980	1983	1984	1987
1976	1980	1983	1984	1987	1994
1980	1983	1984	1987	1994	1995
1983	1984	1987	1994	1995	1996
1984	1987	1994	1995	1996	1997
Launched <i>Kao Sekken</i> , an affordable, safe, high-quality Japan-made soap born from a desire to "help everyone enjoy clean and hygienic lives."	Hard holding power that keeps hairstyles in place against wind and rain	Neutral face wash that is gentle on the skin to replace soap	Carbon dioxide gas boosts the effects of the warm water and increases blood flow to help relieve fatigue	A body wash with neutral MAP as detergent base that is mild to bare skin	Comfortable carbon dioxide jets penetrate active ingredients to the hair roots
					Developed a nonwoven fabric sheet with strong dust collection performance by combining grid-like nets
					Smooth silicon reduces friction in fibers and prevents shrinking
					Sheet packs that instantly unclog pores and remove dinginess
					Sheets allow people to remove makeup even in living rooms instead of the washbasin

**Beyond expectations**

Cuticle care	Secure and pleasant on heavy days	Cosmetics based on <i>Holistic Beauty Science</i>	Strong absorbance and prevents skin rashes	Finely crushing granules make teeth smooth	Fixing bed hair quickly after waking up
A spoonful will give amazing brightness	Easily eliminate wrinkles after washing	Care for dry and sensitive skin			
1976	1978	1982	1983	1987	1990
1976	1978	1982	1983	1987	1990
1976	1978	1982	1983	1987	1990
1976	1978	1982	1983	1987	1990
1976	1978	1982	1983	1987	1990
Smooth texture leaving fingers glide, and kind to hair and scalp	A new type of sanitary napkin with excellent absorbency containing super-absorbent polymers	Science-based basic cosmetics focusing on skin physiology	Utilizes a totally breathable sheet that is mild to baby skin prone to diaper rash	Compact laundry detergent to 1/4 by power of biotechnology	Granules scrape out and remove plaque between teeth
				Makes ironing smoother and easily remove fine wrinkles after washing	Enriches both hair and mind with minty fragrance
					Uses ceramide care technology that supports the action of ceramide, which plays a key role in skin barrier function

**Progress in Essential Research**

<b>Surface science</b> Fundamental technology applied to all products	<b>Skin science</b>	<b>Hair science</b>	Policy for value design	<b>Water science</b>	<b>Enzyme science</b>	<b>Fiber science</b> Value creation and application expansion for sheet products	<b>Safety science</b>
<b>Nano-interface control</b> Technology for precise control over different types of interfaces to achieve mutually opposing properties.	<b>Essential analysis</b> Technology for logically proving complex phenomena to elucidate the nature of unsolved problems	<b>Precise conversion of oils and fats</b> Technology to efficiently and precisely manufacture useful and high functional materials		<b>Meta-processing</b> Advanced process technology for reaction, compounding, processing of all substances	<b>Polymer function control</b> Technology for designing polymer functions as the source of value in products	<b>Essential analysis</b> Technology for understanding the nature of dirt and establishing formulation to selectively remove it	
Precisely designed derivatives (e.g., Bio IOS)	State-changing hair cuticle	Ultra-high-functional alcohol synthesis catalyst		Finely crushing granules for oral care	Environmentally responsive polymer structure	Fine structure of human keratin plug	

# A Legacy of Advancing Innovation and Creating Unique Value

In an age of rapid change, we will change the game by building new technologies, while also creating values beyond expectations through applications of core technologies and contribute to people's lives and society.



## Consumer awareness/needs

- Increased awareness of self-care as lifestyle-related health problems surface
- Spread of habits for enjoying aromas in daily life, and an increase in awareness for odor removal
- Increase in awareness of self-medication for eye strain, etc. peculiar to the IT age
- Increase in eco-awareness owing to worsening global environmental problems

- Demand in easier and more efficient housework with sharing between family members and using robots
- Increase in awareness of health and beauty regardless of gender or age

- Expansion in awareness and action regarding environmental and social issues owing to SDGs education
- Increase in awareness for hygiene and health owing to the spread of the COVID-19

## Game change

For those concerned about body fat. The first FOSHU tea	Asian beauty. Bouncy and supple hair that leaves no mark when tied	Simple application for healthy bronze skin	Helps with deep release of the tension and soothes the mind	Dyes hair evenly with foam	Clean with just a spray; no need to scrub	3D effects that change hair color vividly	More efficient agriculture
 2003	 2003	 2005	 2007	 2008	 2016	 2018	 2021
Contains 540 mg of highly concentrated tea catechins to promote the ability to utilize fat as energy	Making Asian women's black hair more elegant with a return to the origin of Asian beauty. Oriental Beauty Essence formula	A moisturizer that gradually achieves a natural and healthy-looking tan without damaging the skin.	Comfortable steam of about 40°C gently wrap your precious eyes for about 20 minutes	The foam reaches the hair roots and allows for uniform coloring even at home	Foam reaches hard-to-wash areas such as internals, tight spaces, and gaps	Mixed with disinfecting ingredients. Foam spreads in mouth to leave teeth and tongue clean.	Newly developed next-generation dye creates a vivid, three-dimensional, and radiant hair finish
							Functional spreaders for drones making pesticides adhere to crops more effectively, keeping them wet.

### New innovations



**New value creation**

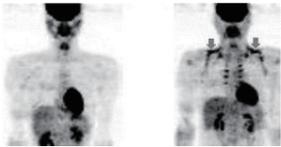
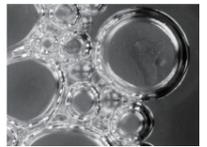
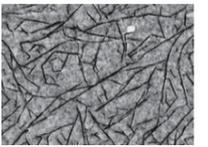
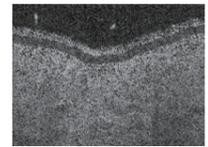
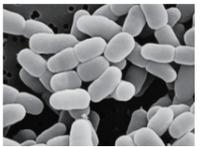
## Beyond expectations

UV care, no white residue nor sticky feeling	Self-foaming hand soap that is mild to skin	Squeaky-clean feel immediately after rinsing	Laundry detergent needing only one rinse	Refills in 10 seconds	Does not damage hair even after repeated use	Long-lasting "just-applied" tone
 2001	 2004	 2004	 2009	 2016	 2018	 2021
UV care products with smooth feel and high SPF	Weak acidity that is friendly to skin. Easy to use for the whole family	Easily clear away oil in one go. Blended with orange oil	Reduces the number of rinses by one to greatly reduce the water used for washing	Raku-raku Eco Pack Refills that let anyone refill easier	Mixed with a precursor to the melanin for black hair that is 100% naturally derived. Helps compliment a natural black color every time you use it	Utilizes moisture that evaporates from lips to form a sealing gel film

## Progress in Essential Research



## Evolution of core technologies

<b>Bio functional control</b> Technology for elucidating human metabolism and realizing strong homeostasis  Activated brown fat cells	<b>Nano-interface control</b> Technology for creating new value related to cleaning, penetration and water-saving through foam control  Film of the bubbles for selective absorption	<b>Meta-processing</b> Technology for intricately combining unstable substances and creating special functionality  Amphiphilic cellulose single nanofibers	<b>Nano-interface control</b> Technology for advanced control of penetration into, adherence to and effects on target substances  Substance penetration deep into human wrinkles	<b>Bio functional control</b> Technology for creating health value specialized for the properties of microorganisms, pests, etc.  Moraxella causes the smell in half-dry clothes	<b>Essential analysis</b> Technology for predicting change of properties in the fields of Life, Everyday lives and Ecology  RNA genes that help with predicting the future
---	--	---	--	--	--

# Sources of Our Innovation

(As of December 31, 2022)



## Creativity

### Yoki-Monozukuri

*Yoki-Monozukuri* is our commitment to excellence in the product development creative process and has been at the heart of our organization since its inception. We believe in harnessing the collective creativity and energy of our employees to create value and enrich the lives of people and the planet.



## Technology

### Essential Research and open innovation

*Essential Research* is more than just identifying the truth behind various phenomena - it is the foundation of our innovation. Through this rigorous pursuit of knowledge, we aim to solve social issues with open innovation, leveraging a diverse range of technology assets and knowledge from both inside and outside of the organization to make a positive impact on society and the world.



## Human capital

### A diverse team that shares expertise and takes on challenges

Employees are our most valuable asset. We leverage the collective wisdom of a highly skilled and diverse workforce to tackle challenging problems and achieve shared goals. Our culture enables our employees to work together effectively, driving innovation and creating value for our customers and society.



## Brands

### Brands that enrich lives across generations

Our diverse portfolio of brands is united by a shared commitment to maintaining close connections with people and meaningful value throughout their lives, whether in challenging or joyous moments, or during their everyday experiences.



## Corporate culture

### The Kao Way

"The Kao Way" is a corporate philosophy deeply rooted in all our employees and the foundation for all of our activities. It is an indispensable guideline for aligning company growth with employee development, job satisfaction, and overall life fulfillment. Which in turn, fosters a positive workplace culture, boosting motivation, productivity, and overall success.

Received the highest rating from CDP in the fields of "Climate Change", "Forests" and "Water Security"

3 consecutive years

World's Most Ethical Companies® selected in 2023

17 consecutive years

Consumer Products Business  
Number of brands of categories share No.1

Japan	Asia	EMEA
11	2	2

Source: INTAGE SRI+® for Japan, and Nielsen real channel data for the U.S.; both from FY2022

Chemical Business  
Number of categories of No.1 share

World top group	Japan top group
8	7

Source: Kao survey

Number of employees

35,411

Female employees	Female managers
53%	31%

Sales area

100

Number of trademarks

23,938

Subsidiaries

111

Number of patents

15,002

Number of our brands in the Consumer Products Business

71

Chapter 1

# Our Value Creation

— Company-wide endeavors to protect future lives

Sustainability is the only path. We aim to be a company that protects future lives.



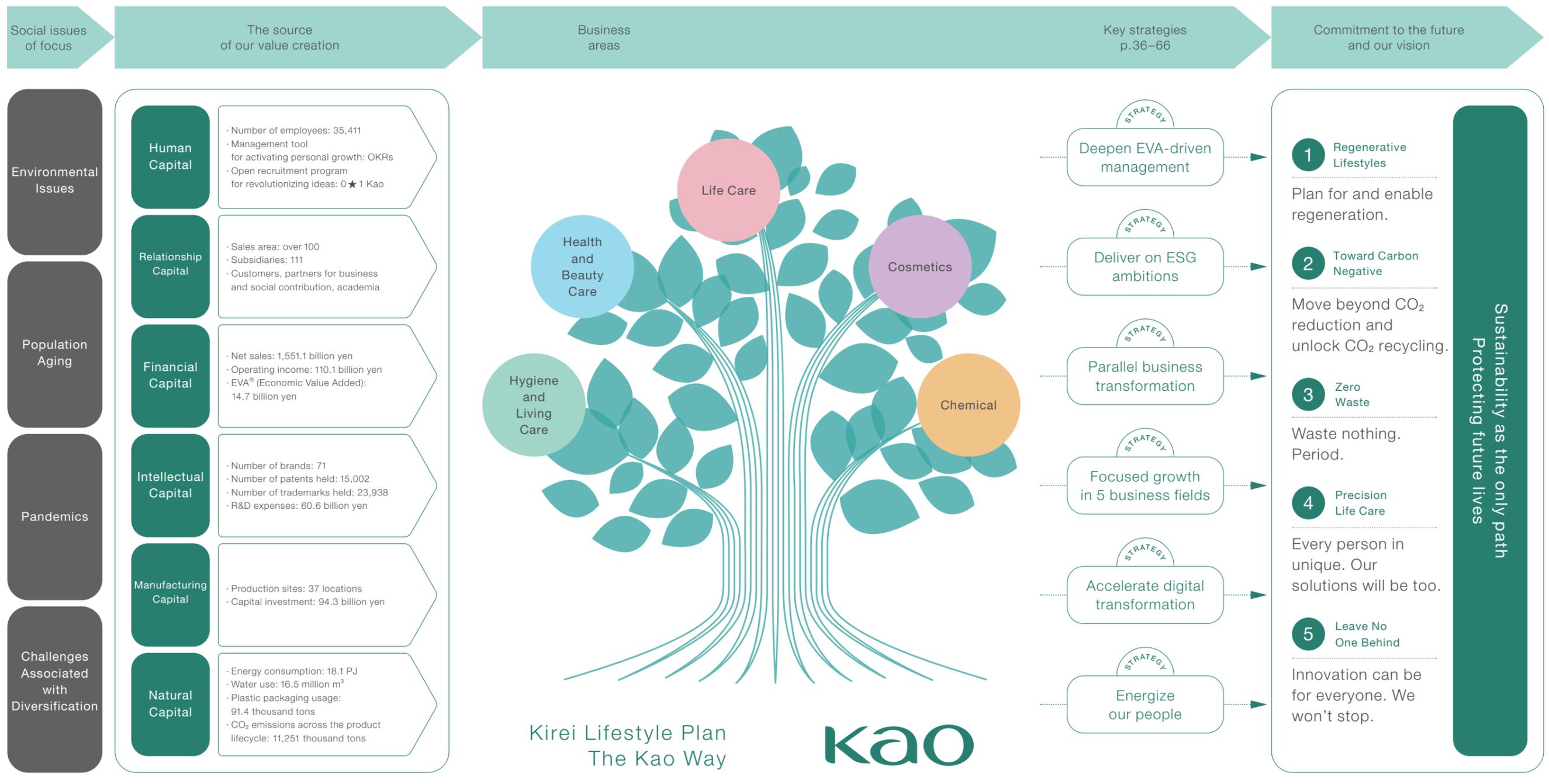
We will protect people, society, the planet and every life on it.



# Value Creation Model

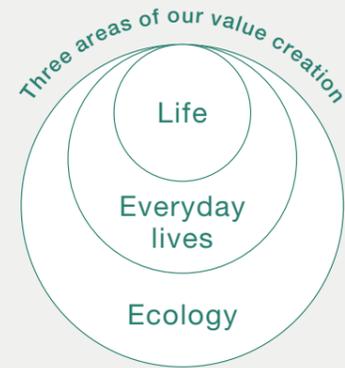
Purpose

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



Sustainability as the only path  
Protecting future lives

# Commitment to the Future



## 1 Regenerative Lifestyles Plan for and enable regeneration.

As living environments undergo significant changes, we strive for a planet where all people live more fulfilled and enriched lives with peace of mind by promoting new practices of cleanliness, beauty, health and the environment that are easy for anyone to do.

## 2 Toward Carbon Negative Move beyond CO<sub>2</sub> reduction and unlock CO<sub>2</sub> recycling.

We will reduce CO<sub>2</sub> 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 CO<sub>2</sub> in the air recycled in raw materials.

## 3 Zero Waste Waste nothing. Period.

We use precious resources without waste and revert products to raw materials after use. Our absolute goal is zero waste from our business activities.

## 4 Precision Life Care Every person is unique. Our solutions will be too.

We offer tailored solutions to meet the unique needs of every individual, achieved through a precise understanding of physical, environmental and underlying causes.

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

We leverage our assets to make meaningful progress in providing peace of mind for all people grappling with serious challenges posed by aging and illness, empowering them to live each day to the fullest.

## Plan for and enable regeneration.



We will provide products, services and information that flexibly address various environmental changes, mainly through existing businesses.

Throughout its history, Kao has remained dedicated to enhancing the satisfaction and well-being of people across the globe. However, with mounting environmental challenges, population aging the ongoing threat of natural disasters and pandemics, we are recommitting ourselves to our goal of enriching lives and taking proactive steps to address these pressing issues.

Our 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.



### Hygiene and Living Care/Health and Beauty Care/Cosmetics

We are dedicated to the physical, mental, and emotional well-being of every individual and their daily life.

By promoting innovative practices in cleanliness, health, beauty, and the environment, we can help individuals adapt more flexibly to rapid changes and uncertainties. In doing so, we aim to foster a hopeful society where people live healthy lives with true peace of mind and freedom to express their unique individuality.

Toward Carbon Negative  
**2**

# Move beyond CO<sub>2</sub> reduction and unlock CO<sub>2</sub> recycling.

We aim to achieve carbon zero by 2040 and be carbon negative by 2050.



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 CO<sub>2</sub> emissions from our own worksites (Scope 1+2), we will promote 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 CO<sub>2</sub> emitted over the product lifecycle (LC-CO<sub>2</sub>), 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-CO<sub>2</sub>. In addition, we are expanding our products and services that contribute to the reduction of CO<sub>2</sub> and developing technologies to recycle CO<sub>2</sub> for reuse in raw materials.

### Scope 1+2 reduction: reduce CO<sub>2</sub> emissions from our worksites

We are working to reduce CO<sub>2</sub> emissions from our worksites by installing photovoltaic power generation systems and enforcing comprehensive energy-saving measures. We will bolster our internal carbon pricing system and accelerate the installation of advanced energy-saving and low-carbon equipment.

Performance in 2021	-20%	(vs. 2017)
Performance in 2022	-26%	(vs. 2017)
Targets for 2030	-55%	(vs. 2017)

### Scope 3 reduction: reduce LC-CO<sub>2</sub> emissions associated with use of our products

We are working to further roll out products and services with lower CO<sub>2</sub> emissions incurred when used, and achieve CO<sub>2</sub> reduction throughout the product lifecycle.

Performance in 2021	-4%	(vs. 2017)
Performance in 2022	-6%	(vs. 2017)
Targets for 2030	-22%	(vs. 2017)

### Carbon-negative initiatives: reduce atmospheric CO<sub>2</sub>

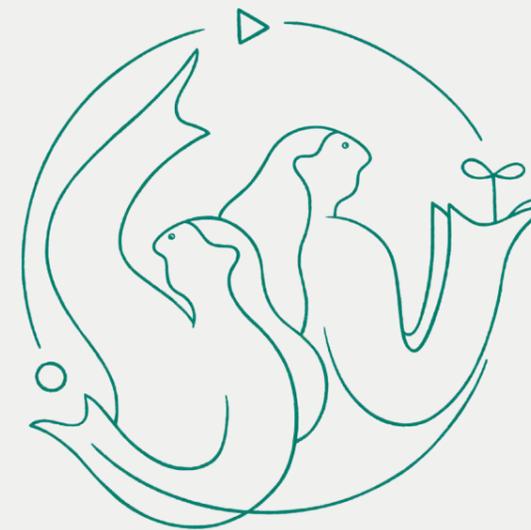
We are developing technologies to capture, fix and recycle atmospheric CO<sub>2</sub> as a resource, with a target of social implementation by 2030.

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

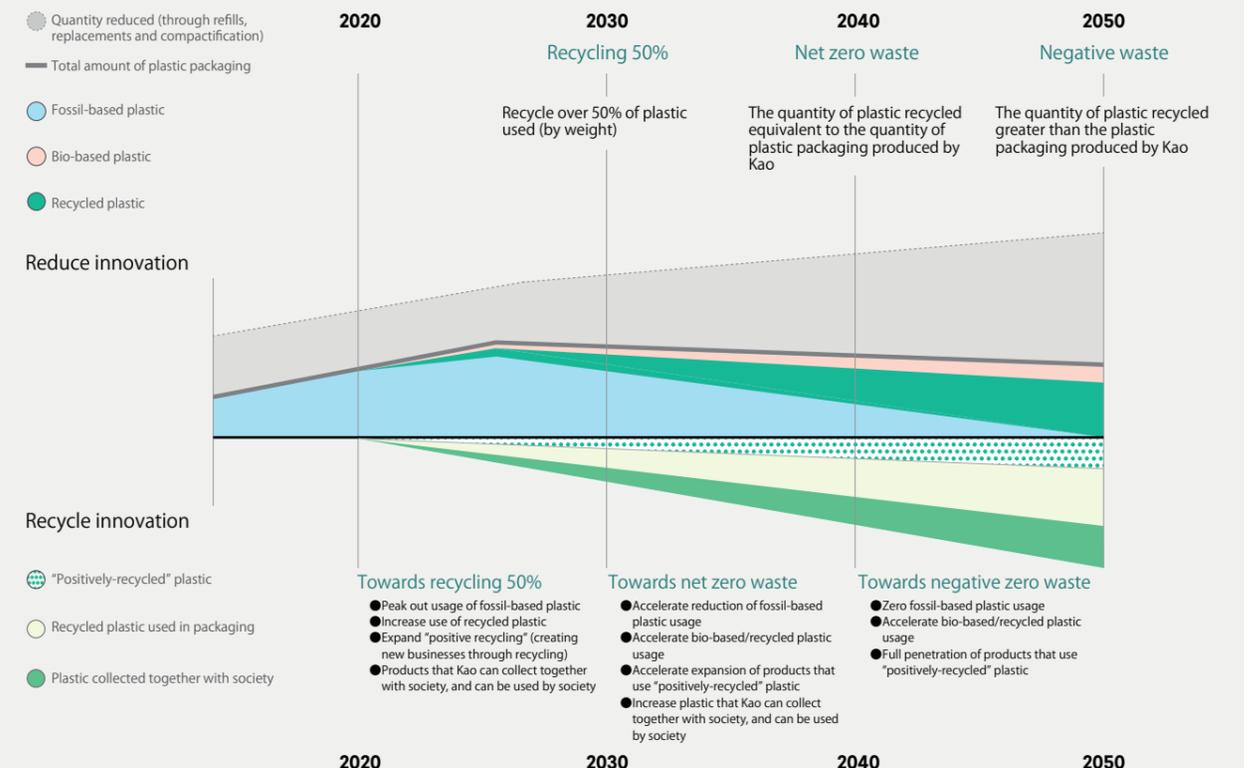
# Waste nothing. Period.

**3** Zero Waste

We are focusing on resource circulation for packaging and plastics, addressing the issue through both existing and new business initiatives.



If we fail to change our lifestyles, the amount of waste will compound unsustainably, leading to resource scarcity 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, we are working to reduce the amount of waste we generate, and also utilize it more effectively. We are also promoting activities to eliminate overproduction in areas such as products and promotional materials. In particular, we are working in collaboration with other companies and local communities to deliver innovation to reduce and recycle plastic packaging.



Precision Life Care  
4

# Every person is unique. Our solutions will be too.

We use two core technologies and work with a wide range of partners to create businesses in various fields.



To live a long life in one's own favorite style, it is crucial to maintain a healthy condition and also a good quality of life. Kao believes it needs to understand each person's physical status, lifestyle, preferences and other information in closer detail, and to take targeted action.

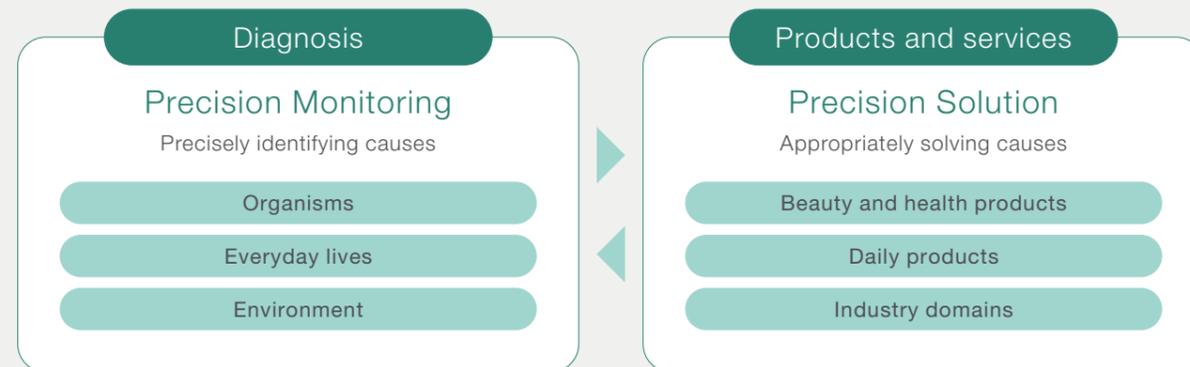
Precision Life Care consists of two core technologies: Precision Monitoring, which accurately profiles an individual's condition, and our Virtual Human Body Generative Model, which is able to estimate statistic patterns in which different attributes appear. These technologies can be used individually or in combination to provide life care with unparalleled precision to suit each and every individual's unique qualities and changes over time.

We are building a platform to evolve the systems in Precision Life Care, and are collaborating with various partners to create new businesses.

IR Meeting: Precision Life Care (March 16, 2022)  
[www.kao.com/global/en/investor-relations/library/business-strategy-presentations/](http://www.kao.com/global/en/investor-relations/library/business-strategy-presentations/)

## Precision Life Care

Precision Life Care to Propose Optimized Solutions for Unsolved Issues



## Main activities in FY2022 regarding Precision Life Care

- ▶ Kao and DOCOMO Agree to Collaborate in the Healthcare Field  
[www.kao.com/global/en/newsroom/news/release/2022/20220308-001/](http://www.kao.com/global/en/newsroom/news/release/2022/20220308-001/)
- ▶ Kao and istyle: Using Sebum RNA Monitoring Technology to Create Encounters with Cosmetics that Suit Individual Skin Types: Joint Initiative Aimed at Customer Satisfaction and Reduction of Product Waste to Launch from Spring 2022  
[www.kao.com/global/en/newsroom/news/release/2022/20220314-001/](http://www.kao.com/global/en/newsroom/news/release/2022/20220314-001/)
- ▶ Business Alliance Formed with Polar Star Space toward the Establishment of Ganoderma Disease Monitoring Technology on Oil Palm Farms  
[www.kao.com/global/en/newsroom/news/release/2022/20221209-001/](http://www.kao.com/global/en/newsroom/news/release/2022/20221209-001/)

Leave No One Behind  
5

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

We are taking a two-pronged approach with existing and new businesses in the following four areas:



In addition to population aging 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 for people facing illness and impact from disasters. There are many things we need to do to leave no one behind. For now, we are focused on the following four initiatives that leverage our strengths and current asset base. Our ultimate ambition is to develop models for sustainable contribution to the society and businesses, so that our activities deliver concrete steps toward ensuring no one is left behind.

1

### Stop pandemics

We provide products and services that prevent the spread of infectious diseases more effectively, and we are promoting their penetration among low-income population.

2

### Support for people with disabilities

We aim to build new social infrastructure that delivers helpful information and products for solving the serious issues faced by people with disabilities and their families.

3

### Relief from water stress

We are promoting sustainable water circulation systems that utilize rainwater and distributing water-saving products to individuals in Asia who struggle with limited access to water for basic needs such as washing.

4

### In everyday life and in times of disaster

We support the lives and rapid recovery of people affected by disasters. We also develop products and services that are useful in both everyday life and in the wake of disasters.

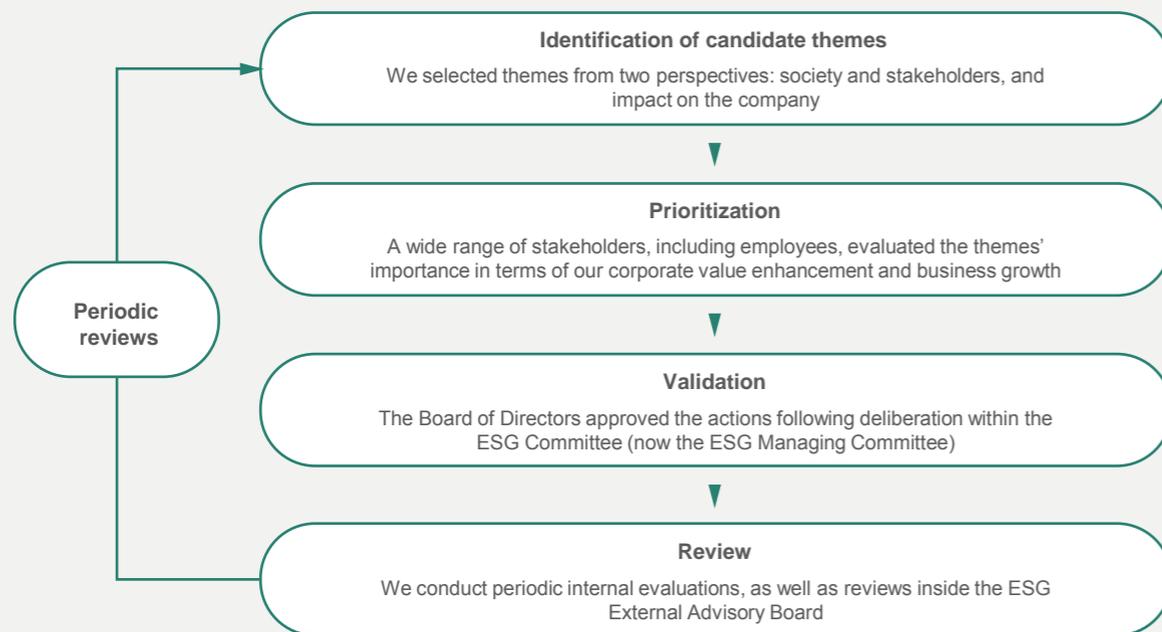
# Materiality

**WEB** Sustainability Report 2023  
[www.kao.com/global/en/sustainability/pdf/sustainability-report/](http://www.kao.com/global/en/sustainability/pdf/sustainability-report/)

## Process for identifying materiality

In 2018, we set our Vision for 2030 as a goal for realizing a sustainable world and enhancing corporate value. We identified the ESG materiality for achieving this through the process shown below. In 2019, we incorporated these elements as the 19 Kao actions in the ESG Strategy:

Kirei Lifestyle Plan (KLP). To enhance the effectiveness of these elements, we hold periodic reviews in line with changes in social circumstances and challenges, as well as on Kao's policies and strategies.



## Relationship between our Commitment to the Future and the KLP Kao Actions

The Mid-term Plan 2025 (K25), published in 2020, indicated our focus on four social issues based on rapid changes around the world: Environmental issues, Population aging, Pandemics, and Challenges associated with diversification. We also declared our policy to upgrade existing businesses and accelerate the

creation of new businesses. Our Commitment to the Future was established in 2021 by incorporating KLP Kao Actions that were strongly related to business activities. Going forward, we will clarify indicators for each commitment according to the growth of our business.

## Indicators corresponding to our Commitment to the Future

We will specify the indicators and KPIs for each theme in accordance with progress in the formulation and execution of business plans.

Commitment to the Future	Corresponding priority theme and indicators of the KLP
<b>1</b> Plan for and enable regeneration.	<p><b>[Improved quality of life]</b></p> <ul style="list-style-type: none"> <li>The number of products which contribute to a comfortable, beautiful, healthy life and touch the heart of people</li> </ul> <p><b>[Habits for cleanliness, beauty and health]</b></p> <ul style="list-style-type: none"> <li>Cumulative number of people reached by awareness-raising activities for acquiring habits for cleanliness, beauty and health using Kao products and services</li> </ul> <p><b>[Universal product design]</b></p> <ul style="list-style-type: none"> <li>% of new or improved products that meet Kao's Universal Design Guidelines</li> </ul> <p><b>[Sustainable lifestyle promotion]</b></p> <ul style="list-style-type: none"> <li>Cumulative number of people reached by awareness-raising activities for promoting environmentally friendly lifestyles and realizing a sustainable world</li> </ul>
<b>2</b> Move beyond CO <sub>2</sub> reduction and unlock CO <sub>2</sub> recycling.	<p><b>[Decarbonization]</b></p> <ul style="list-style-type: none"> <li>% reduction in absolute full lifecycle CO<sub>2</sub> emissions</li> <li>% reduction in absolute scope 1 + 2 CO<sub>2</sub> emissions</li> <li>% of renewable energy in electricity consumption</li> </ul>
<b>3</b> Waste nothing. Period.	<p><b>[Zero waste]</b></p> <ul style="list-style-type: none"> <li>Quantity of fossil-based plastics used in packaging</li> <li>Quantity of innovative film-based packaging penetration for Kao and others per annum</li> <li>Plastic recycling rate with Kao involvement</li> <li>Practical use of innovative film-based packaging made from collected pouches</li> <li>% of recycled plastic used in PET containers (Japan)</li> <li>% of the waste generated from Kao sites, ratio of waste that cannot be recycled                      * Beginning with production sites</li> <li>% reduction of discarded products and discarded sales promotion materials</li> </ul>
<b>4</b> Every person is unique. Our solutions will be too.	<p><b>[Improved quality of life]</b></p> <ul style="list-style-type: none"> <li>The number of products which contribute to a comfortable, beautiful, healthy life and touch the heart of people</li> </ul>
<b>5</b> Innovation can be for everyone. We won't stop.	<p><b>[Improved quality of life]</b></p> <ul style="list-style-type: none"> <li>The number of products which contribute to a comfortable, beautiful, healthy life and touch the heart of people</li> </ul>

**WEB** Sustainability Report 2023  
[www.kao.com/global/en/sustainability/pdf/sustainability-report/](http://www.kao.com/global/en/sustainability/pdf/sustainability-report/)

Chapter 2

# Our Strategy

— Accelerating transformation

We will accelerate transformation through ambidextrous management to revitalize a “Strong Kao.”



We will steadily and powerfully climb the steps toward transformation.



## Achievements and Challenges in the Second Year of K25

### Mid-term Plan 2025 (K25)

#### Objectives

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

	FY2020 results	FY2022 results	FY2025 results
Net sales	1,382.0 billion yen	1,551.1 billion yen	1,800 billion yen
Operating income	175.6 billion yen	110.1 billion yen	250 billion yen
EVA®	60.0 billion yen	14.7 billion yen	100 billion yen
Ratio of net sales outside Japan	38%	45%	50%

### FY2022 results

Our results for FY2022 featured 1,551.1 billion yen in consolidated net sales (3.7% increase year-on-year on a like-for-like basis) which marked a record high. However, our operating income was 110.1 billion yen (33.4-billion-yen decrease year-on-year) which was a significant deviation from the plan. In Reborn Kao (RK) we have encountered difficulties such as unprecedented in raw material prices, economic slowdown in China and AEMEA, and shift toward purchasing lower-priced products with a growing concern about future living standards in Japan.

Growth Drivers was on track, with an 8.5% increase year-on-year in net sales and a 1.0-billion-yen increase year-on-year in operating income. Stable Earnings had a small increase in net sales, but a 22.9-billion-yen decrease year-on-year in operating income. Approximately 60% of the

increases in raw material costs affected this area. To counter the impact, we implemented price increases and were able to partially mitigate their effects. Business Transformation saw a decrease in both net sales and operating income. We have established a foundation for growth in the Sanitary Napkins, and will now concentrate our efforts on regaining our position in other businesses.

In Another Kao (AK), we are making steady progress in social implementation and business development. We launched repellents in Thailand and are working to achieve global expansion with asphalt modifiers. In addition, we are expanding our collaborations for application and social implementation the Virtual Human Body Generative Model to realize our Precision Life Care concept.

#### ▼ FY2022 results in each business portfolio category

Business area	Applicable businesses	FY2022 net sales (year-on-year change)	FY2022 operating income (year-on-year difference)	Remarks
<b>Stable Earnings</b> Market share growth and enhanced profitability through appropriate investments	<ul style="list-style-type: none"> <li>Fabric Care</li> <li>Home Care</li> <li>Personal Health Care</li> </ul>	+0.9%	▲22.9 billion yen	<ul style="list-style-type: none"> <li>Market share grew in the face of raw material price hikes and increasingly severe competition, but profitability decreased</li> <li>Positive factors were Laundry Detergents and Home Care products</li> <li>Negative factor was Fabric Softeners</li> </ul>
<b>Growth Drivers</b> Growth in sales and profit through active investments	<ul style="list-style-type: none"> <li>Cosmetics</li> <li>Chemical</li> <li>Skin Care</li> <li>Commercial-use Hygiene Products</li> </ul>	+8.5%	+1.0 billion yen	<ul style="list-style-type: none"> <li>Secured sales and profits as planned</li> <li>Positive factors were Cosmetics and UV Care in Japan and the rest of Asia</li> <li>Negative factors were Cosmetics and Chemicals in China and logistics issues in the Americas</li> </ul>
<b>Business Transformation</b> Swift improvements in profitability with carefully selected investments	<ul style="list-style-type: none"> <li>Sanitary</li> <li>Hair Care</li> <li>Products for Hair Salons</li> <li>Health Drinks</li> </ul>	▲2.9%	▲11.5 billion yen	<ul style="list-style-type: none"> <li>A positive factor was Sanitary Napkins in Japan and the rest of Asia</li> <li>Negative factors were Hair Care products and Baby Diapers</li> </ul>

▲ shows negative values.

## Key Strategies for Enhancing Our Corporate Value

To make swift improvements to profitability and realize mid- to long-term enhancements in corporate value, we will execute the following six key strategies:

STRATEGY

1

### Deepen EVA-driven management

We will deepen EVA-driven management and revive a "Strong Kao" with the introduction of ROIC by business and strengthening business portfolio management.

▶ p.37

STRATEGY

4

### Focused growth in 5 business fields

We will accelerate the development of five business fields to continue protecting "Kirei" for people and the planet.

▶ p.47

STRATEGY

2

### Deliver on ESG ambitions

We will support the sustainable development of Kao through ESG innovations, and create a significant impact on people, society, and the planet.

▶ p.40

STRATEGY

5

### Accelerate digital transformation

We will pursue to further develop our DX talent and transform into a UX creation company that offers exceptional experience.

▶ p.61

STRATEGY

3

### Parallel business transformation

We will design synergies between RK and AK to provide new value that contributes to people's enriched lives and the realization of a sustainable world.

▶ p.43

STRATEGY

6

### Energize our people

We will plan and execute various measures to motivate every employee and encourage them to take on challenges.

▶ p.63

STRATEGY 1

# Deepen EVA-driven Management

## Revitalizing a “Strong Kao” by deepening EVA-driven management

### Masakazu Negoro

Senior Managing Executive Officer  
Responsible for Management Finance  
(Accounting and Finance, Business Structure Reforms,  
Procurement, Human Capital Strategy)

My greatest responsibility among my four roles as the person responsible for accounting and finance is effectively utilizing all our assets and taking the lead in sustainable corporate value enhancement. In 1999, Kao became the first Japanese company to adopt EVA\*1 as a management indicator that reflects the corporate value and has pursued EVA-driven management since then. In 2023, we introduced ROIC\*2 by business to bolster business portfolio management and refined EVA-driven management. We also seek to raise awareness among all employees about capital efficiency by introducing ROIC by business.

\*1 Economic Value Added, EVA® is a registered trademark of Stern Stewart & Co.  
\*2 Return on Invested Capital



## Progress and challenges in the Mid-term Plan 2025 (K25)

My other essential responsibility is to execute large-scale investments including M&A to realize our vision. I will lead to making the right decisions on investment in scrum-style organizational management by ensuring to read ahead of time rather than subsequent analysis of the facts.

One of my most important roles is to be accountable to stakeholders while reinforcing communication and engagement.

I cannot deny that decision-making and response have

been delayed in the past few years, due to rapid changes and significant impacts in the business environment. We have begun to focus our mindset on capital efficiency and to execute growth strategies based on structural reform and our business portfolio. Improving EVA as a company-wide effort will eventually lead to revitalization toward a “Strong Kao”. The business environment continues to be unclear, but we will share the results of these efforts as soon as the results prevail.

# Sustainable transformation in a virtuous cycle

A key element of business transformation is to show all employees a detailed strategy for bolstering business portfolio management that drives our future forward. When this is clear, each employee will have more awareness of business reform. It is also crucial for them to understand the concept of cost of capital, to break away from a profit and loss mindset\*3 and to widely penetrate the “Maximum with Minimum” approach that ties with EVA.

Any transformation includes a period of endurance, but

this only lasts briefly. The true nature of our transformation involves investing with a long-term perspective in the face of a certain degree of risk and realizing a virtuous cycle of repeated transformation based on these investments. Human capital investments are essential for organizational transformation, as are DX investments for business management transformation and ESG investments for social reforms. I will strive to optimize the balance among these investments.

\*3 A short-sighted mindset and attitude that aims to maximize indicators such as immediate sales and income related to profits and losses.

## Deepening EVA-driven management by introducing ROIC by business

Kao seeks to establish management that combines two indicators—EVA and ROIC by business—to deepen its EVA-driven management.

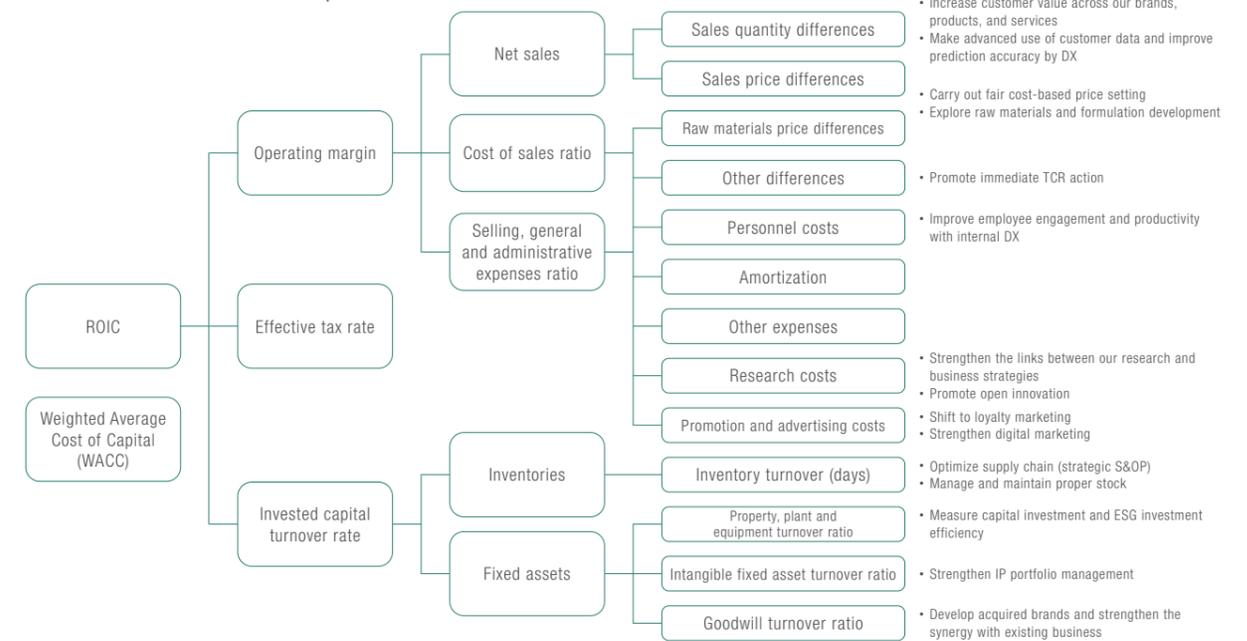
One characteristic of our five business segments is that they each have their own individuality but also relate to each other. It is vital to have a common target and management indicator (EVA) across these businesses to realize the power of our integrated approach. On the other hand, the awareness of cost of capital is gradually weakening in each business. As such, Kao will introduce ROIC by business and reinforce EVA again.

Each business is competing with specialized

manufacturers, so we could take an approach to define and manage target ROIC values for each business based on its market position. However, excessive focus on managing businesses individually may bring the risk of opportunity loss regarding large-scale investments. It is sometimes necessary to make decisions with a perspective to improve company-wide EVA. Through introducing ROIC by business, we will realize a management that considers cost of capital.

Our company transformation will accelerate once individual initiatives contribute to the desired growth of our company. To this end, I will hold workshops and other events to penetrate of this concept.

### Basic structure of ROIC tree by business and initiatives for ROIC improvement



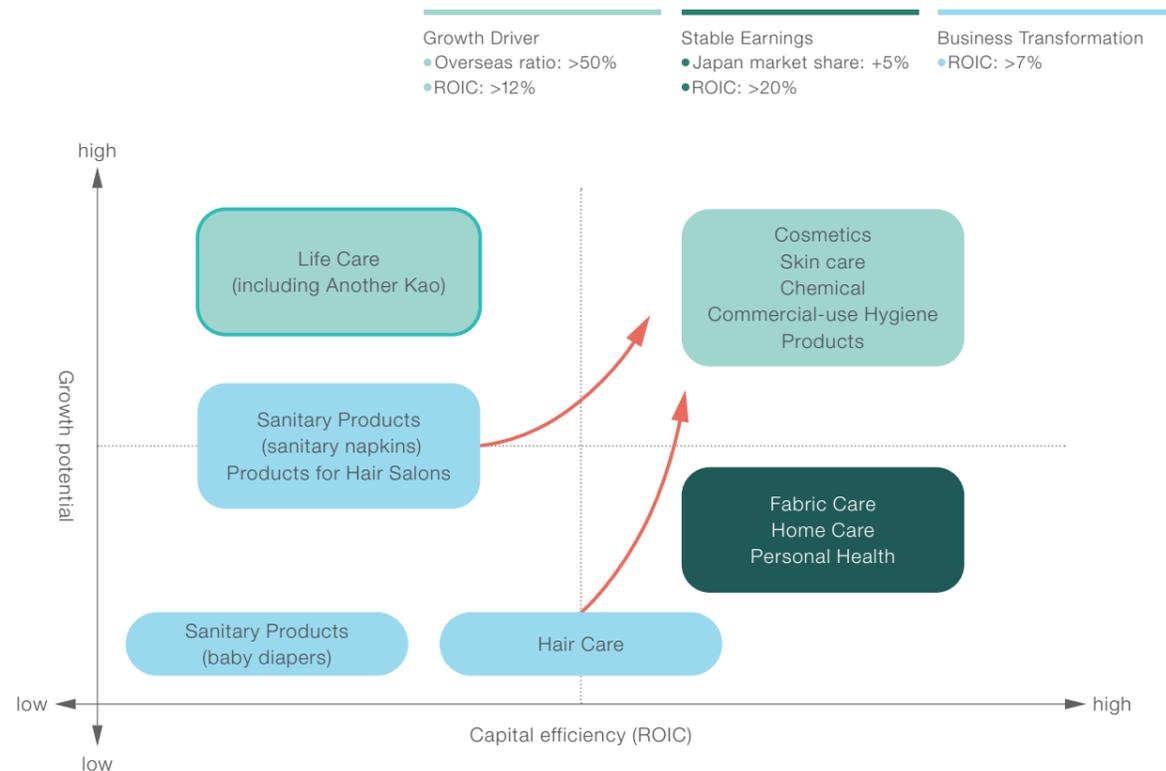
## Bolstering business portfolio management

All of our businesses are crucial as we have customers that need those products and services. However, an analysis based on growth and capital efficiency (ROIC) will clarify businesses that need improvement. It is vital for management to consider appropriate measures for these businesses and execute the next measures swiftly through scrum-style management.

Growth Driver businesses are an area for focused investment. We have several options, such as expanding

their range to build a new field in Another Kao, creating synergy with other business areas, or further reinforcing the business through M&A investment. We will carry out structural reform in Business Transformation businesses that need improvement. If improving EVA is determined to be difficult despite carrying out every possible action, it is crucial to make timely decisions regarding the business, including withdrawal or sale. We plan to clarify the direction for the diapers business by the end of 2023.

### Concept for a business portfolio to realize K25



## Managing both EVA and ESG

In 2019, Kao made a declaration for ESG-driven management. In K25, we set “sustainability as the only path” as our Vision and described our policy as only focusing on business activities that contribute to ESG. We are carrying out various initiatives to this end. For example, Kao is the only Japanese company to attain an AAA score in CDP for two consecutive years. We have also set our internal carbon pricing (ICP) at 168 USD/t-CO<sub>2</sub>, one of the highest values across Japan, and we are actively working to reduce CO<sub>2</sub>.

Going forward, we will engage in value creation and business operations with an even stronger awareness for achieving both EVA (enhancing corporate value) and ESG (solving social issues). In parallel with this, we will carry out active public relations activities related to Kao’s ESG initiatives and link these to customer loyalty enhancement. Through investor relations (IR) activities, we will also reinforce engagement with all investors with a strong interest in ESG.

## STRATEGY 2

## Deliver on ESG Ambitions



### Pursuing twin goals: resolution of social issues and business development

#### Dave J. Muenz

Director, Managing Executive Officer  
Senior Vice President, ESG, Global  
Responsible for Strategic Public Relations

Kao’s vision of “protecting future lives” and “sustainability as the only path” as outlined in our Mid-term Plan 2025 (K25) has guided and accelerated our commitment to ESG management. The rapid and complex changes that are impacting our business are only expected to intensify, and ESG strategies are becoming more important in order to reduce risks and create business opportunities.

Kao’s ESG strategy, the Kirei Lifestyle Plan (KLP), sets forth a unique direction and a set of ambitions for our ESG activities, while putting the people we serve at the center of our actions. Our ESG strategy focuses on three commitments with 19 Kao actions to realize our ESG Vision. It is aimed at providing care and enrichment for all people and the planet. Our ability to seize opportunities and mitigate risks through the lens of ESG will lead to business growth and advance a virtuous cycle of benefits to society and all of our stakeholders.

## Creating future value through business practices that contribute to people and the planet

Based on our foundational principles of benefiting society while generating future financial value for Kao, it's essential that we accelerate the integration of ESG into our daily business practices.

At Kao, innovation is the driving force behind serving our customers, developing our business, and addressing the pressing environmental and social issues we face in today's world.

Through innovations within the various aspects of the KLP, we will drive true transformational change in the world with holistic sustainability solutions in Resource Preservation & Circularity, and Regeneration of Nature, to realize a Kirei Lifestyle for all.

Creating maximum value from the limited and precious resources of our planet is core to our product development. Zero Waste within the KLP is driven by our efforts in Resource Preservation & Circularity. Our chemical product NEWTLAC 5000 can make pavements more durable using recycled plastic and can play a role in building a sustainable

circular society. Our efforts in Regeneration of Nature can be seen in our surfactant base called Bio IOS, which utilizes an under-used portion of palm oil, helping to reduce the pressure on deforestation while ensuring supply of essential hygiene products. We will continue to expand the use of this material.

Moreover, in 2022, driven by our desire to 'protect future lives', we succeeded in developing and launching a people-friendly mosquito repelling skincare formula. Aiming to eradicate infectious diseases caused by mosquitos, Kao adopted an innovative business approach, going beyond simply putting out on the market. We collaborated with stakeholders within the community, such as governments, local authorities and distributors, to address this common social issue and share the responsibility to find sustainable solutions. While still in its initial stages, we believe that this type of approach can create positive transformation for society and the business, and identify ways to develop new markets and customer loyalty.

## Sharing our ESG vision

Another key to realizing a more sustainable society is to enable people to enjoy sustainable lifestyles with ease and comfort. This will also include encouraging people to make sustainable choices more consciously. As part of this effort, Kao launched a new communication strategy in 2022. Designed to convey Kao's commitment to the environment and society in an approachable way, we created the slogan "Mottainai" ("Wastefulness – Never today, nor tomorrow"). The key objective of this communication is to engage customers to consciously be a part of the solution simply by choosing and using Kao's products. This will increase Kao's corporate value through enhanced awareness of ESG activities.

## A Kirei Life for all

Kao will continue to evolve our ESG strategy to ensure we have updated and relevant policies, actions, and management in place for our business.

Biodiversity will be an area we will step up activities in, as well as DE&I which will be promoted across the value chain for creating a more inclusive world.

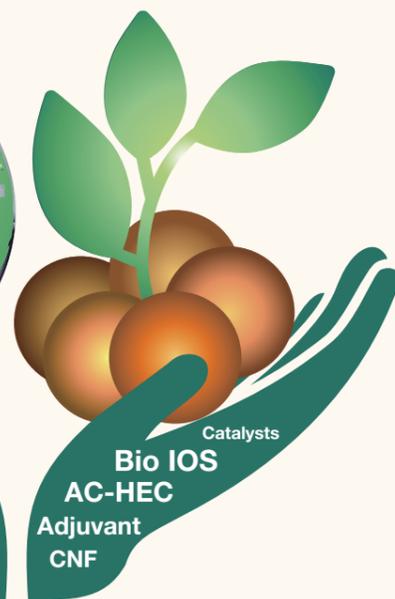
Innovation is needed to address the serious environmental and social issues we face today. Through our essential innovation at R&D and engaging and co-creating with various stakeholders in novel ways, we will empower our ESG-driven *Yoki-Monozukuri*. Our ESG-driven management will support Kao's sustainable growth and at the same time create significant positive impacts on people, society, and the planet.

### Kao's ESG Innovations

#### Resource Preservation and Circularity

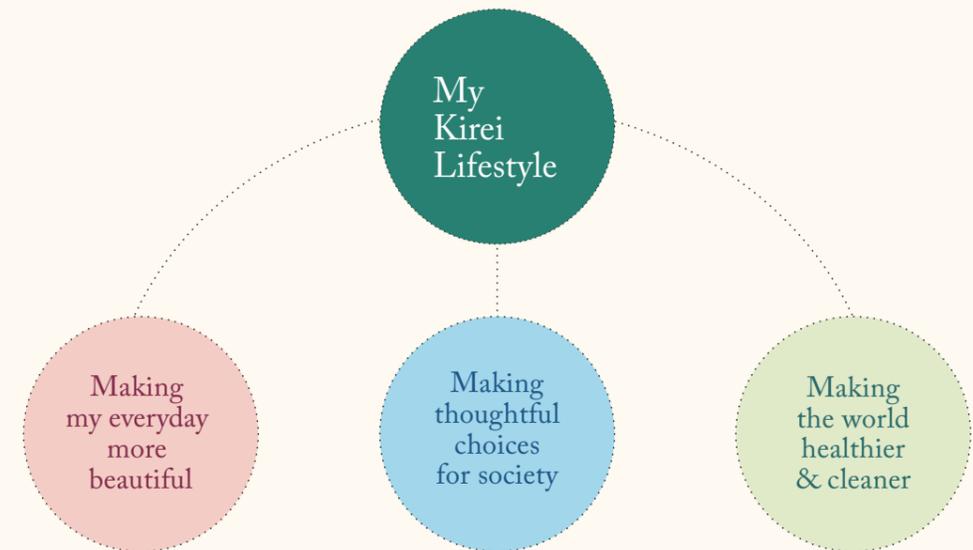


#### Regeneration of Nature



For People

### Kao's ESG Commitments



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

**BY 2030**  
100% of Kao brands will make it easy for people to make small but meaningful choices that, together, will shape a more resilient and compassionate society

**BY 2030**  
100% of our products will leave a full life cycle environmental footprint that science says our natural world can safely absorb

## STRATEGY 3

## Parallel Business Transformation



## Toru Nishiguchi

Senior Managing Executive Officer  
Vice President, Consumer Products, Global

## Satoru Tanaka

Managing Executive Officer  
Senior Vice President, Corporate Strategy, Global  
Responsible for Product Quality Management  
Responsible for Legal

## 2-year results and challenges of the Mid-term Plan 2025

**Nishiguchi:** At present, some challenges remain regarding “Transform to build robust business through investment” in the Mid-term Plan 2025 (K25). In FY2022, net sales grew but bold measures are needed for achieving high profit and Economic Value Added (EVA®). Influence from external factors includes the impact of the COVID-19 pandemic and rising geopolitical risk leading to hikes in raw material prices. In addition, there are challenges with some brands losing momentum and having a lower impact to propose solutions to people.

**Tanaka:** We must accelerate our transformation into a high-profit structure in a method unique to Kao. Innovation is a part of Kao’s DNA as stated in the Kao Way. We will use the ROIC tree and other methods to increase the involvement of each employee in capital efficiency, thereby accelerating our transformation into a high-profit structure.

If we do not drive both Reborn Kao (RK) and Another Kao (AK) at the same time, our growth is sure to reach a limit. With AK, we are at the stage of nurturing the seeds of new businesses that we created in the past two years and creating a new stage. We will make maximal use of synergy with existing businesses to pursue these activities at an early stage.

**Nishiguchi:** I feel that Kao’s latent power allowed us to steadily promote AK in the face of severe conditions. The top-line growth in RK suggests an increase in Kao’s customers. After shifting to living with-COVID and post-COVID conditions, we will also exert every effort to take the lead in bringing tangible results from AK and RK. For example, in Asia, an area that I have worked with for a long time, in the past few years there has been a dramatic enhancement in online communication with other countries. By developing a structure that enables local team members understand communities up close, we are working to make proposals that create new lifestyles while engaging in robust collaboration between each area.

**Tanaka:** In the past two years, we have built the foundation for globalization. We have appointed three Executive Officers in AEMEA (the Americas, Europe, the Middle East and Africa) and developed a structure for local business execution. We are establishing knowledge for developing brands that joined us through M&A and are steadily working to bolster the *Oribe* and *Guhl* brands. We are ready for the expansion of our business in Brazil.

## Place people at the center and draw a blueprint that maximizes value

**Nishiguchi:** Kao has continually built new markets and businesses. We will not change this style but rather significantly change our method. Peoples’ interests have shifted from products to lifestyles, and thus consumption-based marketing is no longer effective. We must understand people more deeply, shift to marketing that proposes new lifestyles, and increase the number of our fans who feel that Kao is essential for their future lifestyles. For this purpose, the essence of RK and AK is the same.

That is why it is possible to develop AK in combination with RK. We launched the repellents under the *Bioré* brand, but with an AK approach. Because of our aspiration to protect the lives of people in Thailand from Dengue fever, we were able to gain strong support from governments and retailers, and we built a structure for sales and collaboration at an unprecedented speed. In addition, by utilizing the *Bioré*

brand in this initiative, we accelerated the spread of products and information while also increasing the number of new fans.

**Tanaka:** As you say, it is important to place people at the center and draw a blueprint that maximizes value by utilizing synergies between AK and RK. While RK aims to develop existing markets, AK aims to change the game in new markets—new fields—and create new businesses to serve as the next growth engine. To this end, we will utilize all existing and new technology assets, and we will also proactively consider partnerships with other companies and M&A. We will increase the number of fans through both RK and AK, and enhance loyalty for brands, products and services to help realize sustainable development at Kao.



We are working to make proposals that create new lifestyles while engaging in robust collaboration between each area.

— Toru Nishiguchi



We are spreading a mindset for the idea “Don’t be afraid to fail.”

— Satoru Tanaka

## Toward K25 achievement

**Nishiguchi:** We will reinforce our proposals for creating everyday lives. Specifically, we will move away from a method that relies on sales power and develop strong brands that are rooted in people’s everyday lives.

For RK in Asia, we are focusing efforts on Indonesia. There are many lives that we can protect worldwide through soap, repellents and other products. We will shift our perspective from consumption to everyday lives and exert efforts to get close to the local area to develop businesses to protect future lives.

To change the way employees work, we will create a diverse workplace where people from different background work together. We will implement scrum-style in business operations to prioritize the power of our integrated approach and speed whereby relevant personnel gather together and take quick action from the initial stage.

**Tanaka:** It is important for AK to take a global perspective from the beginning of business design. We will delegate authority to each country while taking a 3D perspective of the world and establishing overarching strategies through backcasting to accelerate global development. With Skin Care, we will build footholds in the U.S. and expand into Brazil and the UK.

The source of our development has been our employees’ unwavering stance in tackling challenges. Creating an environment in which everyone can work with excitement is my most important job. I will reinforce an environment in which open-minded discussions and ideas can be achieved while spreading a mindset for the idea “Don’t be afraid to fail.” In addition to promoting AK, I will focus efforts on supporting management.

## Roles of RK and AK

### Reborn Kao

Bolster our business foundation and accelerate global growth in existing markets

With RK, we will achieve high profit in existing businesses through dynamic investments to accelerate growth through global expansion.

We will continue to concentrate investment in the four businesses within the Growth Drivers area based on our business portfolio. We will utilize ROIC by business and other indicators, while placing even greater priority on capital efficiency within each business strategy. We will also shift to implement scrum-style organizational management to carry out strategic investment decisions swiftly.

As we pursue globalization, we will offer one-of-a-kind value propositions that cannot easily get caught up in price wars or other rivalries with competitors. We will shift toward a local production for local consumption model to get even closer to local communities and optimize designs for provided value and cost performance.

### Another Kao

Create growth engines for the future and new fields in new markets

With AK, we are taking on challenges for completely new businesses and business models through co-creation with various partners and are creating engines for Kao's next step in growth as well as new fields that will help expand businesses. Regarding the target areas in new markets, we are focusing on Medical and Life Care, while also considering Digital, Circular Economy and others.

From 2021 to April 2023, we have started a total of five new businesses: Repellents, Durable Asphalt Modifiers made using waste PET, Highly Functional Spreaders for drone spraying pesticides, B2B Hygiene Solutions, and Mail-in Testing Services for the skin barrier of babies and infants. We will develop these businesses and expand them globally while also working to create more new businesses.

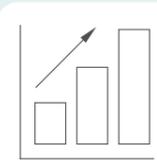
### Reborn Kao

Strengthen foundation / Global growth

Existing market

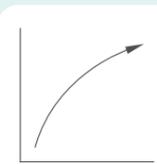
Beyond Expectations

Introduce new technologies into existing markets and categories to create new value and change consumer expectations.



Higher Performance

New applications of existing technologies that surprise and delight consumers with improved efficacy and product performance.



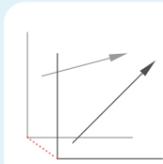
### Another Kao

Create new engine / Game change

New market

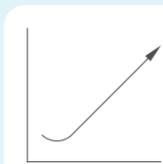
Game Change

Create new markets with new technologies, introduce new technologies that make existing solutions obsolete, fundamentally change possibilities.



Reimagine

New and better solutions for old problems using existing technologies in unexpected ways.



## Business Concept for Realizing K25 and Making Further Developments

We will work in both Reborn Kao and Another Kao to provide new value that helps realize comfortable lifestyles for people throughout the world and helps achieve a sustainable society, while also continuously developing our businesses.

### Reborn Kao

Strengthen foundation / Global growth

Existing market

Beyond Expectations



Higher Performance



### Another Kao

Create new engine / Game change

New market

Game Change



Reimagine



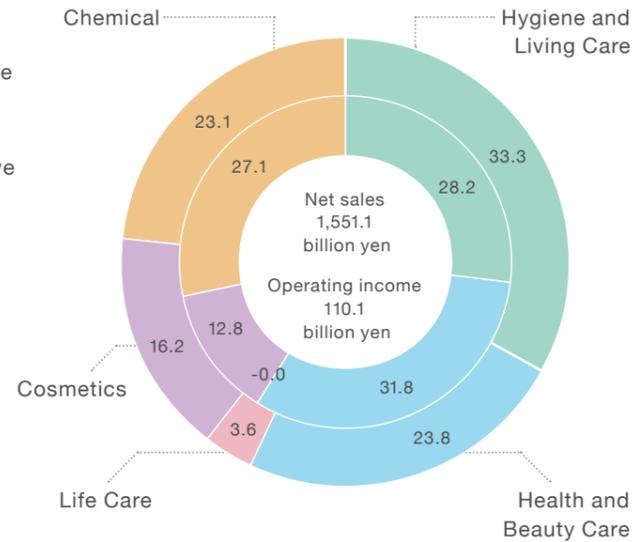
# STRATEGY 4 Focused Growth in 5 Business Fields

Kao conducts business with a focus on the fundamental value that people seek. We promote value creation through five business segments: Hygiene and Living Care that supports and brings greater comfort to everyday lives; Health and Beauty Care that offers healthy beauty for the entire body; Life Care that develop new business to protect human lives; Cosmetics that delivers hope and Kirei by staying close to the beauty and individuality of each person; and Chemical that contributes to the industry and a sustainable world in the future—by providing innovative solutions.

Share of net sales is calculated based on sales to customers.  
Share of operating income is calculated before the elimination of intersegment transactions.

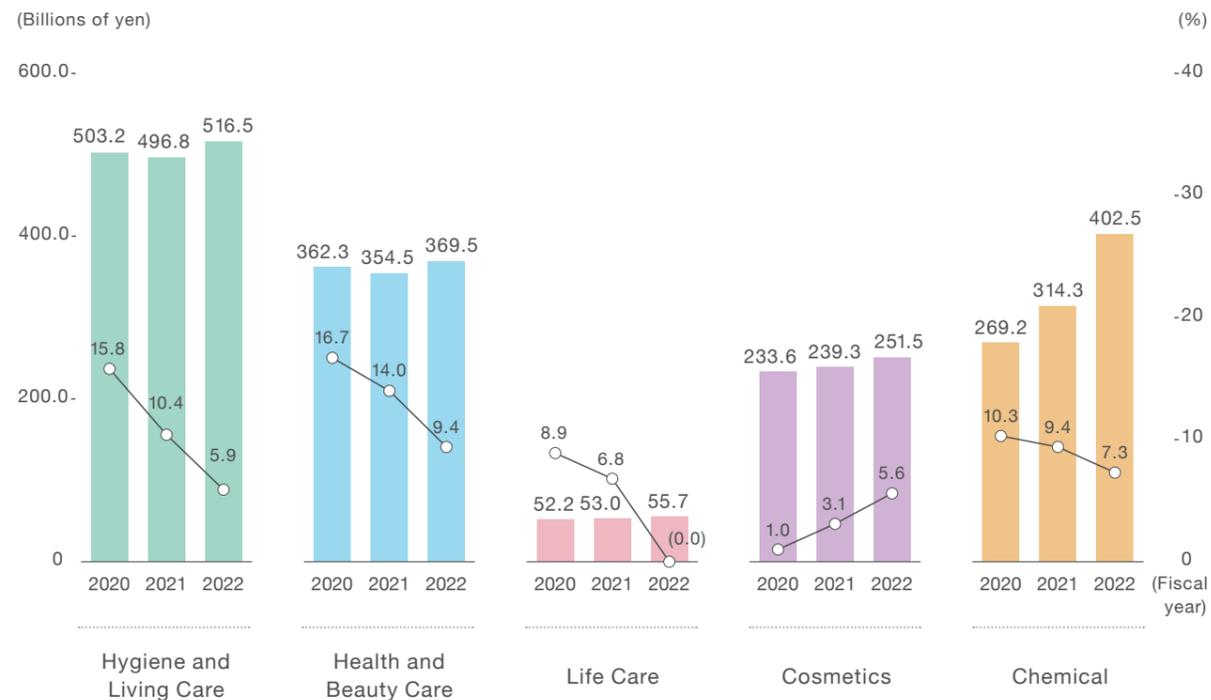
FY2022 Shares of net sales and operating income by business segment

Outside: Net sales composition ratio (%)  
Inside: Operating income composition ratio (%)



Trends in net sales and operating margin by business segment

■ Net sales ○ Operating margin



# Hygiene and Living Care Business

## Kirei in our interactions and everything our lives touch

### 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 Characteristics

Develop numbers of No.1 brands in the fabric and home care market in Japan

- *Attack* / heavy-duty detergent (33.9%)
- *EMAL* / light-duty detergent (62.6%)
- *Wide Haiter* / laundry bleach (79.1%)
- *CuCute* / dishwashing detergent (47.5%)
- *Haiter* / kitchen bleach (78.8%)
- *Magiclean* / bath cleaner (56.7%)
- *Magiclean* / toilet cleaner (40.0%)
- *Quickle* / dust wiper (59.9%)
- *Quickle* / toilet cleaning sheet (60.5%)

Source: INTAGE SRI+, figures in parentheses indicate FY2022 share by value

Strengthen our presence in the Asian market

- *Magiclean*: No.1 market share in the home care category within three countries and areas in Asia we have business operation
- *Laurier*: No.1 market share in the sanitary napkin category within Guangzhou and Pearl River Delta area, China

Source: Nielsen FY2022 real channel data



### Natsumi Hotta

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

### Business Strategies

- Reinforce our products proposal for clothing and home hygiene in response to a growing hygiene awareness in the wake of the COVID-19 pandemic.
- Proactively lead efforts to reduce the quantity of plastics and chemical substances, and build essential brands for a sustainable world.
- Develop strong brands which are loved globally by building trust with people by products and services developed with the local needs.

### Priority Activities

- Increase customer value of the *Attack* and *Humming* brands
- Solidify Home Care Business by proposing new value
- Strengthen customer loyalty in Sanitary Business from the perspective of lifetime value



Categorized based on location of distributors

#### 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

#### Opportunities

- Increased awareness about environmental issues
- Growing hygiene needs for clothing and home spaces globally
- Advancement of women in society, declining birthrate and population aging
- Diversification in the allocation of housework responsibilities (making it easier for anyone)

### ESG Activities

We aim to proactively engage in ESG activities and reinforce our contributions to society and connections with customers through brands that have a large market share and are essential to everyday life.

#### Adopting 100% recycled plastic bottles\*

Starting in 2021, we incorporated bottles\* using 100% recycled PET for *Attack ZERO* and *CuCute CLEAR Foam Spray*. By 2025, we will use recycled PET in all PET bottles\* for Japanese household products.

\* Excluding colorants, labels, pumps and caps  
PET: Polyethylene terephthalate

#### Laurier in workplaces

To reduce stress related to menstruation as much as possible, we are promoting initiatives to make sanitary napkins a regular amenity in workplace restrooms. In 2022, we started introducing services to companies that agree with this initiative.

#### Supporting first menstrual education

We provide booklets that briefly cover accurate knowledge on menstruation along with sample products to elementary schools in Japan and six countries and areas in Asia that made applications to us. Since launching *Laurier* in 1978, we have provided them to approximately 12,000 schools cumulatively\*.

\* Japan: approximately 11,000 schools; six countries and areas in Asia: approximately 1,200 schools

# Health and Beauty Care Business

## Kirei that makes life shine

### Value Creation

Through daily hygiene practices and selfcare for physical and mental well-being that all people can maintain without difficulty, we contribute to realizing truly healthy lives, where people can express their individuality.

Along with protection and prevention against external factors such as infectious diseases and UV rays, we also offer products and information to boost the immune system for caring environmental stresses and creating safety and reassurance in everyday life.



### Main Brands



### Business Characteristics

#### Global brands

- *Bioré*: 61 countries and areas
- *Liese*: 11 countries and areas
- *MegRhythm*: 16 countries and areas
- *Jergens*: 39 countries and areas
- *John Frieda*: 75 countries and areas

#### Brands with No. 1 market share in their category

- *Bioré* / Japan: UV care products (unisex / for men)
- *Bioré* / Japan: body washes (unisex / for men)
- *Bioré* / U.S.: pore strips
- *Jergens* / U.S.: skin tone enhancement

Source: INTAGE SRI+® for Japan, and Nielsen real channel data for the U.S.; both from FY2022



**Kotaro Nuriya**

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



**Karen B. Frank**

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

### Business Strategies

- Propose holistic solutions for needs in various occasions of life.
- Offer products and services to meet health and wellness needs.
- Focus on developing new products to solve environmental and social issues.
- Broaden our global footprint with a focus on our leading brands of *Bioré* and *Jergens* and *John Frieda*.
- Accelerate Beyond Beauty, Beyond Bricks and Beyond Borders.

### Priority Activities

- Continue to add new and compelling benefits to enhance customer value across our core Brands, such as *Bioré* and *Jergens*
- Expand tangible UV protection into more areas (Asia, U.S. EMEA and Brazil)
- Strengthen functional skin care by communicating the value of *Essential Research*
- Expand e-commerce and direct-to-consumer (D2C) to deeply engage with our customers
- Strengthen oral care brands



Categorized based on location of distributors

#### Strengths

- Global business operation of Skin Care and Hair Care products
- Diverse range of technologies for hygiene and the environment needs
- Expertise in body skin care, skin protection and hair coloring
- Numbers of leading brands

#### Opportunities

- Hygiene and health needs expanded in the wake of the COVID-19 pandemic
- Global expansion of the hygiene market
- Meeting the increasing concerns and needs around environmental issues
- Growing needs to improve the quality of life of elderly people

### Synergy with Another Kao

#### New business protecting future lives from mosquitoes



In Thailand, we launched *Bioré GUARD Mos Block Serum* that protects skin from mosquitoes in daily life with a safe and comfortable feel after use. In addition, we started the #GUARD OUR FUTURE project through a wide-ranging collaboration alongside partners in government, academia and the private sector with an aim to reduce harm from dengue fever. We received delighted feedback from customers in Thailand, and this also became a popular topic



in Japan. We will expand the product variations for more diverse usage methods and occasions. We will also collaborate with our partners and respond swiftly to the different regulations in each country to expand our business around areas beyond Thailand.

# Health and Beauty Care Business Salon Business

## Making life beautiful for salons, stylists and their clients

### Value Creation

We believe in enriching the lives of hair stylists, salon owners and their clients. Together, we are making life more beautiful with our salon brands, products and services.



### Main Brands



### Business Characteristics

Kao provides products and services primarily for salons to customers worldwide. This business operates on 6 continents and 63 countries through 22 subsidiaries. Through five brands—*Goldwell*, *Oribe*, *KMS*, *Kerasilk*

and *VARIS*—we provide products in the four categories of coloring, care, styling, and perms for salons and stylists around the world, as well as various services that support their business.

#### GOLDWELL

*Goldwell* originated in Germany in 1948. Ever since, the brand has constantly innovated to provide industry-leading and high-performance products for stylists. *Goldwell* has been loved by hair stylists for 75 years, and is widely recognized today as the best color system in the world.



The hair stylist Oribe Canales created hairstyles for many celebrities and was known as a legend in the beauty industry. *Oribe* is a luxury brand that was born in New York in 2008 with the aim to realize the beautiful and glamorous feminine appearances that he envisioned.



**Dominic M. Pratt**

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



**Daniel Kaner**

President, Oribe Hair Care  
Co-Founder, Oribe Brand

### Business Strategies

- Focus on the two key pillars of Hair Color and *Oribe*, and maximizing the commercial synergies
- Develop and establish differentiated innovations like Piston-Can, Automatic color dispenser, *@Pure Pigments* and *Elumen*.
- Accelerate global expansion of *Oribe* in EMEA (Europe, the Middle East and Africa) and Asia to build on the omnichannel success achieved in the US.
- Strengthen relationships with salons and stylists by supporting them to grow their business via innovative products, services and business models, with a focus on DX.

### Priority Activities

- Reinforce *Goldwell* as a partner with leading hair color products and services
- Continue to grow *Oribe* in all channels and expand globally
- Enhance efficiency and profitability across the entire Salon Business
- Collaborate with salons globally to reduce the environmental impact from products and their use
- Collaborate with the salon industry to promote Diversity, Equity & Inclusion and inspire the next generation of hair stylists.

#### Strengths

- Leading position for value creation, education and sustainability in the salon industry
- Hair color innovation that contributes to profitable growth at salons
- *Oribe* as a luxury omnichannel brand that achieved double-figure growth on a global scale

#### Opportunities

- Expand from B2B business to omnichannel
- Greater importance of experiences and storytelling
- Increasing need for customization
- Rise in interest for Environmental, Social and Governance (ESG) among salons and consumers
- Fusion between beauty and health (changing needs in beauty salons)

### Synergy with Another Kao

#### Milbon × Kao: collaborative project for establishing beauty and health care services in beauty salons

Beauty salons are a familiar place for many people, and a location that they regularly visit. They have the potential to serve as new communities that care not only for people's beauty but also their health. Milbon Co., Ltd. and Kao are pursuing a collaborative project for a future in which beauty salons can become new communities for people and cities through beauty, and thereby serve as a beauty platform. We started deliberations in 2022 about providing health care information at beauty salons using sebum RNA monitoring. Going forward, we will promote discussions on beauty and health care products to be exclusively sold in beauty salons as well as health care products and various services that utilize beauty salons as a hub.



## Life Care Business

Supporting health so people can lead happy and fulfilling lives

### Value Creation

In view of the nature of issues people face, we take steps to realize self-cures and self-care that fits their 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 from companies and organizations, thereby contributing to people's safety.

### Main Brands



### Business Characteristics

#### Health and Wellness Business

We focused on the health functions of polyphenols in plants, and developed the *Healthya* brand as a series of Food for Specified Health Use (FOSHU) and Food with Function Claims that harness the power of these polyphenols.

With the online service Monitoring Health that visualizes visceral fat levels, blood pressure and steps walked, we aim to help make healthy behavior part of our customer's daily lives while enhancing loyalty.



#### Commercial-use Hygiene products

Through Kao Professional Services Co., Ltd. (KPS), we engage in the sales of commercial-use detergents, also provide optimal hygiene solutions with professional perspective for restaurants, food processing companies, medical, care, accommodations and leisure facilities, and other organizations.



Akira Shimotoyodome

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



Masaaki Ozawa

Consumer Products,  
Life Care Business, Global  
President, Kao Professional Services  
Co., Ltd.

### Business Strategies

- Transform from a Health Drink Business to a Well-being Business that provides personalized and optimized solutions based on biological data.
- Expand our business domain to environmental hygiene to proactively prevent the spread of infectious diseases, treatment for skin diseases and the prevention of geriatric syndrome arising with severe population aging.
- Collaborate with companies, research institutions, public-interest group and others, we will engage in swift co-creation to produce customer value.
- Offer solutions that cover everything from design to operations and maintenance in a comprehensive package to resolve hygiene issues holistically at professional use occasion.

### Priority Activities

- Transform to Precision Life Care Business
- Expand revenue in Commercial-use Hygiene Products through synergy with B2B Hygiene Solutions

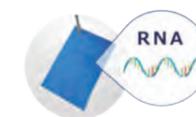
#### Strengths

- Developed technologies accumulated through existing businesses (including hygiene, metabolic syndrome care and skin care technologies)
- Unique Precision Monitoring technology (including sebum RNA testing technology) accumulated through *Essential Research*
- Data-driven marketing using advanced technologies

#### Opportunities

- Expansion in the self-health-care market
- Advances in digital technologies
- Expansion in hygiene-related markets

### Synergy with Another Kao Start to Precision Life Care Business



#### RNA Testing Business

Healthcare Systems Co., Ltd. launched a mail-in testing service called Baby Well Check that uses Kao's sebum RNA monitoring technology to understand the skin barrier status of babies and infants.

The skin barrier function is known to be lower in babies and infants who develop atopic dermatitis. We believe that this test can help parents and guardians know the status of their children's skin and provide care that suits their skin.



#### B2B Hygiene Solutions

We launched B2B Hygiene Solutions through Kao Professional Services Co., Ltd. (KPS) to support measures against infectious diseases at companies and organizations. We established the new company Kiralia Hygiene Co., Ltd. as a 100% subsidiary of KPS to provide solutions with even greater expertise that stay close to customers' individual needs.

# Cosmetics Business Celebration of Individuality

## 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

In the Cosmetics Business, we have selected eleven global strategic brands (G11) and eight regional strategic brands deployed mainly in Japan (R8). We polish each brand by fusing solid evidence with beauty that appeals to the five senses. Within the G11, we will focus more on *SENSAI* and *Curél*, which have already been developed globally, to achieve further growth at a faster pace.



### SENSAI

*SENSAI* is a luxury brand rolled out to 48 countries with a focus on EMEA (Europe, the Middle East and Africa). It was launched in Europe in 1983, and is competing\*1 for the leading market share in the skin care category in Germany. We expanded into Tmall in China in 2021, and aim for further development in Asia.

\*1 In the alliance market with 400 perfumery stores, \*2 INTAGE SRI+®, FY2022 share by value of cosmetics for sensitive skin by series

### Curél

*Curél* is a brand for dry and sensitive skin in 10 countries and areas with a focus on Asia. It has dominated the No.1 market share\*2 in sensitive skin care category in Japan. We are pursuing global development further for people with dry and sensitive skin worldwide.



### Yousuke Maezawa

Senior Executive Officer  
President, Consumer Products,  
Cosmetics Business  
Molton Brown Limited Chairperson of  
the Board



### Mark Johnson

President, Consumer Products,  
Cosmetics Business  
Molton Brown Limited President of  
UK headquarters

## Business Strategies

- Focus investments on the G11 and R8, and develop each brand to become No.1 in its segment.
- Establish a new business division to expand business in AEMEA, and expand market share in China by executing a model with local production for local consumption.
- Promote ESG-driven manufacturing and business operation to realize a sustainable world and solve social issues.
- Achieve engagement with customers and shift toward a business model focused on retention.
- Shift to a robust business framework through initiatives such as restructuring Makeup Business.

## Priority Activities

- Accelerate growth in the G11 with a focus on *SENSAI* and *Curél*
- Expand the sales composition ratio of e-commerce in China and EMEA
- Improve profitability by reforming brand portfolio.



Categorized based on location of distributors

### Strengths

- Cross-sectional asset utilization in the Kao Group
- Integration of in-depth knowledge about skin based on evidence (Science) and emotional value (Sense)
- Highly distinctive brands that stay close to the individuality of customers
- Unique advanced technologies (Fine Fiber, sebum RNA monitoring, etc.)

### Opportunities

- Offering new value based on the SDGs perspective
- Mid- to long-term global market expansion
- Diversification of beauty needs and makeup behavior due to new lifestyles and values
- New purchasing experiences and customer touchpoints with advances in digital technologies

## Synergy with Another Kao

### Reinforcing customer engagement with My Kao

My Kao is an interactive digital platform with the following main four functions: learning, experiencing, buying and creating. It helps us to connect with customers and understand in depth using One-ID to provide user experiences (UX) in many ways.

Cosmetics Business launched within it an interactive beauty-related community site called Kao Beauty Brands Play Park, and is rolling out many products in our e-commerce site My Kao Mall.



# Chemical Business

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



## Value Creation

We strive to solve environmental and social issues through co-creation by integrating Kao's various strengths with those of its customers and partners. In this way, we help create new value in the industry and realize social impact.

We contribute to initiatives for customers, industries and society to make a shift toward decarbonization and a circular economy by refining our sustainable materials and proposing new ecological solutions.

## Business Characteristics

(Source: Kao survey)

In the leading group worldwide (8 products)		In the leading group within Japan (7 products)	
Oleochemicals	<ul style="list-style-type: none"> <li>Natural fatty alcohols</li> <li>Tertiary amines</li> </ul>	Plastics and Rubbers	<ul style="list-style-type: none"> <li>Silica dispersants for fuel-efficient tires</li> </ul>
Detergents and Cosmetics	<ul style="list-style-type: none"> <li>Surfactants for fabric softeners</li> </ul>	Agrochemicals	<ul style="list-style-type: none"> <li>Adjuvants for agrochemicals</li> </ul>
Surfactants	<ul style="list-style-type: none"> <li>Sulfate type anionic surfactants</li> </ul>	Food products	<ul style="list-style-type: none"> <li>Additives for tofu</li> <li>Emulsifier for confectionery</li> </ul>
Fragrance	<ul style="list-style-type: none"> <li>Aroma chemicals (HCA, MDJ, lactones, etc.)</li> </ul>	Casting	<ul style="list-style-type: none"> <li>Furan binder for casting</li> </ul>
Digital printing materials	<ul style="list-style-type: none"> <li>Toners/Toner binders</li> </ul>	Metals	<ul style="list-style-type: none"> <li>Metal cleaners</li> </ul>
Semiconductors and Electronics	<ul style="list-style-type: none"> <li>Hard disk polishing agents/cleaners</li> <li>Cleaning agents for semiconductor back-end processes</li> </ul>	Asphalt, Civil engineering and Construction	<ul style="list-style-type: none"> <li>High-range water reducing admixtures for concrete products</li> </ul>



## 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.

## Business Strategies

- Strengthen our foundation for growth and accelerate business expansion into new areas.
- Proactively develop solutions and materials with high environmental value and social value.
- Strengthen and accelerate business development through M&A and external collaboration and cooperation.
- Accelerate global growth by business expansion in major markets including AEMEA (the Americas, Europe, the Middle East and Africa) and China, and creating a business foundation in emerging countries.
- Innovate business and reinforce customer touchpoints/communication by actively adopting digital technologies.

## Priority Activities

- Bolster the No.1 position of the Oleo Derivatives Business.
- Steadily develop one-of-a-kind technologies.
- Achieve global expansion of sustainable chemical products.



Categorized based on location of distributors

### Strengths

- Product groups that demonstrate strengths through unique technologies: Oleochemicals, Performance Chemicals and Information Materials
- Ability to deploy business solutions in a wide range of industrial fields
- Synergy with the Consumer Products Business
- Business foundation that enables global growth

### Opportunities

- Expanding needs for environmental response and decarbonization
- Expanding social expectations for hygiene
- Increased concern about food-related issues
- Aging infrastructure in developed countries and economic development in emerging countries
- Advanced digital technologies and expansions in their use

## Synergy with Another Kao

### Asphalt modifier made from waste PET

NEWTLAC 5000 is an asphalt modifier made from waste PET and launched in 2020. It enhances the durability of asphalt paved roads and reduces the frequency of repairs, thereby decreasing environmental impact and maintenance costs. Adoption has increased in various places and social implementation has steadily progressed.

To respond to the increase in the quantity used, we aim to establish a recycling system for waste industrial PET film that is currently disposed of by incineration. We will pursue collaborations with companies that dispose of waste PET as well as local governments while also promoting collaborations with pavement companies to achieve widespread rollout for expressways and regular roads.

We are developing NEWTLAC 6000SMA for cold environments, and will engage in sales activities within cold regions in Japan starting in 2023. We are also pursuing deliberations on expansion outside Japan, and seeking to make global contributions.



**WEB** For details on the Chemical Business, please visit the Kao Chemicals website. [chemical.kao.com/global/](http://chemical.kao.com/global/)

# STRATEGY 5 | Accelerate Digital Transformation

## Shifting from a Manufacturing Company to a UX Creation Company

Kao has streamlined operations and driven work style reforms using AI and other advanced technologies from 2018. We made fully fledged efforts to promote digital transformation (DX) in business starting in 2021, and in January 2023, we newly established a division called DX Strategy by integrating DX functions.

Our current top-priority initiative for business DX is to build an interactive platform "My Kao" for directly connecting with customers to strengthen relationship. To this end, we are pursuing two approaches that are unique to Kao. One approach is to provide a unique user experience (UX) through our monitoring technologies. The other approach is to harness our broad business domains to stay close to each and every customer, and thereby realize their Kirei life.

This platform will also significantly contribute to the digitalization of our *Yoki-Monozukuri*. The big data collected on a daily basis through this platform will help update our capabilities in consumer understanding, product development and marketing.



**Yoshihiro Murakami**

Managing Executive Officer  
Senior Vice President, DX Strategy

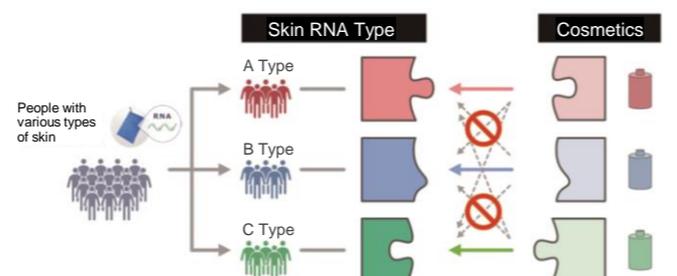
We seek to go beyond manufacturing products and become a company that provides unparalleled experiences. In other words, Kao's challenge for DX is to transform from a manufacturing company to a UX creation company.

## UX creation and business model reform

We have two distinct perspectives for UX: monitoring and solution matching.

For example, the monitoring can clearly show customers changes in their physical status, as well as makeup and hairstyles that suit them, or the hygienic status in their living spaces. On top of this, we will bring customers the joy of coming across the ideal solution that suits them, and deliver an experience that has them want to continue using it. This is what Kao seeks to achieve in UX.

● Evolving our business in cosmetics through collaboration with istyle Inc.



Categorize people into groups based on their skin RNA type. Analyze @cosme evaluation comments from people in each group and give estimates on cosmetics that suit each group.

## Global development of interactive digital platform

We launched "My Kao" in December 2022 as our first interactive digital platform in Japan. My Kao has four functions: knowing, experiencing, buying and creating. It helps us to connect with customers and get closer using One-ID, allowing us to provide UX in many ways.

We have already launched direct-to-consumer (D2C) business in China and AEMEA (the Americas, Europe, the Middle East and Africa). We will share knowledge from each area and work to develop the interactive digital platform worldwide.



	FY2022 results	FY2025 challenge
e-Commerce	11% (5%)	25% (15%)
In-house ratio in e-commerce	4% (8%)	15% (20%)

Numbers in parentheses are those for Japan

- Japan "My Kao": [my.kao-kirei.com/](http://my.kao-kirei.com/)
- Americas (brand site): [www.kao.com/americas/en/brands/](http://www.kao.com/americas/en/brands/)
- EMEA (brand site): [www.kao.com/emea/en/brands/](http://www.kao.com/emea/en/brands/)
- China (e-commerce website): [www.kao.com/cn/e-commerce/](http://www.kao.com/cn/e-commerce/)

## Improving web accessibility

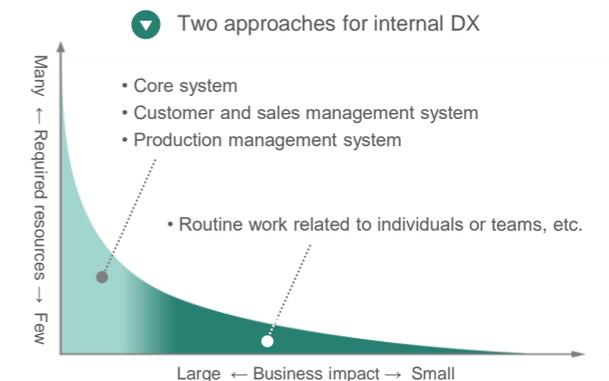
As part of our commitment to environmental and social responsibility and our goal of promoting a fulfilling lifestyle, we are working to improve the accessibility of information and features on our website (web accessibility). Through this effort, we aim to promote user-friendly digital communication, making it easy and stress-free for everyone to find and use Kao products.

**WEB** Kao Web Accessibility Policy: [www.kao.com/global/en/web-accessibility/policy/](http://www.kao.com/global/en/web-accessibility/policy/)

## DX human capital development and internal DX as the foundation for a UX creation company

Our DX human capital require wide-reaching knowledge and skills in both IT and business, including fields like IT technologies, data science and digital marketing. We are developing human capital by using digital skill study services and providing data analyst training.

Developing DX human capital is also crucial for improving work styles and business processes. To respond to projects for individuals or specific teams that have a relatively small business impact, we have built a system to train employees who understand the *Genba* as "citizen developers". In this way, by accumulating many small-scale internal DX projects, we steadily improve streamlining operations.



We will respond to projects that have a large business impact with active investments, and to limited projects through employee reskilling. As of February 2023, there are over 673 citizen developers.

# STRATEGY 6 | Human Capital Development and Engagement

## Strong company is driven by motivated and engaged employees

We believe that empowered employees working with passion for what they do strengthen the company. We implemented OKR (Objectives and Key Results) system as a way to revitalize our human capital. We aim to create a corporate culture in which each and every employee has aspirations and is willing to take on challenges. We should make the most of individuality and support **individual growth**. We will **maximize our organizational power** by building a team in which each individual can make biggest synergy.

Fostering a good working environment is also

important. It is our responsibility to **create a place where our employees can exercise their full potential**, achieve results and grow.

It motivates people more than anything when their efforts lead to results. We manage the effectiveness of work through ROIC for each business along with other indicators, and we promote the provision of places where people can demonstrate their abilities. It is also essential to **improve work efficiency** to increase the speed and standard of these efforts. We will integrate our management strategy and human capital strategy, leading to the growth of the company and employees.

### Providing better workplaces and opportunities that assist growth

Opportunities that assist growth



Providing better workplaces

<p><b>1 Individual growth</b></p> <ul style="list-style-type: none"> <li>Challenge-oriented human capital: over 50%<sup>*1</sup></li> <li>Investment in employee education doubled</li> <li>Strengthen development of management and specialist human capital</li> <li>Expansion of autonomous challenge system 0★1 Kao<sup>*2</sup></li> </ul>	+	<p><b>2 Maximization of organizational power</b></p> <ul style="list-style-type: none"> <li>Recruitment and promotion of diverse human capital: Ratio of female managers = Ratio of female employees (FY2030) <sup>*5</sup></li> <li>Mid-career hires: tripled<sup>*3</sup></li> <li>Enhance the human capital portfolio and strategically assign the right people</li> <li>Ratio of highly motivated human capital: over 80%</li> </ul>
<p><b>3 Opportunities for growth</b></p> <ul style="list-style-type: none"> <li>Evaluation and reward system according to difficulty and achievement</li> <li>Expansion of duty-linked human capital system</li> <li>Workplace satisfaction rating over: over 80%<sup>*1</sup></li> <li>Provision of a fair environment (genderless mandatory childcare leave, etc.)</li> </ul>	+	<p><b>4 Work efficiency</b></p> <ul style="list-style-type: none"> <li>DX human capital: tripled (Utilization support and key human capital assignment)</li> <li>Work style satisfaction over: 70% <sup>*1</sup></li> <li>Evolution of work styles (expansion of work-style selectivity)<sup>*4</sup></li> </ul>

Unless specifically stated, target deadlines are FY2025, and target values for rate of change are comparisons with FY2020  
<sup>\*1</sup> Employee Opinion Survey Index, <sup>\*2</sup> Kao's original new proposal system, <sup>\*3</sup> Targets for DX human capital and specialized human capital, <sup>\*4</sup> Workplace aptitude judgment, <sup>\*5</sup> FY2030 targets

## 1 Individual growth

It is important to continuously enhance the abilities of each and every employee to drive company growth. Introducing OKRs to align the direction for individual and company growth and to integrate them for organizational strengths. As of FY2022, 90% of employees in Japan and 62% of global employees have set their own goals using OKRs.

Employees are encouraged to set minimum KPIs

related to their basic role in addition to challenging goals, and the system is designed to evaluate effort that exceed the KPIs as an additional achievement. In a sense, it is a more rigorous evaluation system than KPIs, but depending on the degree of achievement, the company will evaluate, reward and recognize employees and provide opportunities for the next stage of growth. According to the results of an employee survey, about 25% of employees have already set their own challenging goals and are putting them into practice.

## Expand learning opportunities

To achieve OKRs as set by the employee, we provide self-development programs that promote individual learning opportunities. Personal development is encouraged through a variety of programs, including e-learning courses that provide more opportunities without time restriction. We have also reorganized our training programs for managers to enhance leadership and management, as well as dialogue programs.



## New job assignments for experience expansion and talent development

In FY2022, we conducted personnel transfers and placements inside and outside the company based on their career orientation and aptitude of employees. We have implemented 438 cross-departmental rotations while prioritizing areas with importance in terms of management, thereby working to develop of employees with a long-term perspective.

We are also expanding the number of employees seconded to solve social problem together the government and industry institutions. As of the end of December 2022, 70 employees are actively working outside the company. We believe that the experience of these employees will help improve the skills of individuals and organizations.

## Further promotion of 0★1 Kao

We are promoting "0★1 Kao," which creates a challenge for employees to make proposals that transcend their responsibilities and roles. Nearly 100 proposals have been submitted by the end of 2022, and some of them are in the process of being implemented. Proposers can

freely exchange ideas with each other, and supporters are given the opportunity to make their own proposals by providing their ideas. This has led to the expansion of our culture for taking on challenges and the enhancement of our ability to promote innovation.

## 2 Maximization of organizational power

Through OKRs and 0★1 Kao, employees' challenge spirits are increasing. We are providing opportunities for individuals that can take challenges to maximize the power in each into the power of the organization as a whole.

### Empowered by diversity

For an organization to grow, it is essential that diverse human capital can exercise its full potential in a good working condition. In 2023, we introduced new measures in Japan to promote the active participation of women, and we release monthly informative contents on multiple themes such as LGBTQ+, disabilities and nursing care to promote understanding among our diverse employees and to establish appropriate practices in the workplace. Ensuring a time and environment in which all employees can play an active role in the organization is a crucial factor for allowing individuals to resonate with each other. In addition, we appointed four non-Japanese and six female executive officers out of 36 in FY2023 to incorporate diverse perspectives into discussions and decision-making on important management issues. We believe that maximizing our organizational power means integrating the power of distinctive individuals, and we are promoting a viewpoint that **recognizes diverse organizations as standard practice.**

Overview of measures to promote women's participation  
Aim to bring diverse perspectives into decision-making process

- Development of potential future leaders**
  - Talent development from the perspective of equity
    - Selective leadership training program for women
    - Motivative transformation for women
- Support for balancing work and childcare to promote engagement**
  - Minimizing career gaps caused by childcare
    - Expand childcare support system
    - Raise career recognition among employees in the childcare period
- Provide management education for unbiased training and promotion opportunities**
  - Dispel the mindset of gender-based roles
    - Learn diversity management skills

### Scrum-style management

To develop and secure promising human capital over the mid to long term, we manage human capital information from multiple perspectives, based on their backgrounds, achievements and potentials. This information also serves as a profile for the formation of new teams.

Priority tasks must be driven forward in a speedy and advanced manner, so the best team formation is needed to meet the objectives. Human Capital Strategy

has a mission to propose the best team formation derived from talent profiles. We are evolving a matrix structure and working to implement scrum-style management in a way that is centered on maximizing the speed of achieving results. We aim to **make decision in Genba** while avoiding silos and uniformity that tend to occur in large organizations.

## Supporting employee health and expanding into society: Promoting health care management

Employee health and well-being are key to our business activities. This does not only represent the foundation of the work environment, but it also serves as an important element for individual growth and company performance. Kao has utilized knowledge and solutions in the area of health conditioning for employees and their families, and is **promoting practical health activities.** We also collaborate with external organizations to promote excellent initiatives among local residents, thereby contributing to the realization of a healthy society.



## 3 Opportunities for growth

It is important for people to work in an organization where they can improve themselves. However, this can only be achieved with the foundation of a workplace that enables employees to do so. A workplace where employees can grow is created by providing a mission in which their achievements are properly evaluated and rewarded. OKRs play a role in motivating employees by visualizing

the connection between their own goals and those of the organization/company.

It is also essential to set rewarding work that matches the aptitude of employees to improve activity their activity. We will expand the job-linked human resources system to maximize workplace satisfaction. We aim for continuous growth and maximization of the activities of human resources by selecting jobs that should be prioritized, and by allocating them appropriately.

## 4 Work efficiency

“Efficiency” is the ratio of results obtained to the effort expended, and “work efficiency” is the ratio of work obtained within a given time frame. Kao's emphasis is not on “efficiency,” but on “work efficiency,” which is **the ability to increase the amount of work that can be done in a given amount of time.** To this end, it is imperative to carry out a **drastic review of work styles and utilize IT on a daily basis.**

### Work-style reform

Practicing the optimal work style to suit the function and characteristics of the organization and the role of the individual will increase the amount of work per hour and the standard of results. In other words, this will lead to an enhancement of organizational efficiency. In the wake of the COVID-19 pandemic, a hybrid work style that combines remote and in-office work is currently taking root. To promote this style, Kao is evolving its IT facilities and office environment by installing web conferencing areas and a webcasting studio, as well as a Smart Work Support (SWS) that enables the monitoring of employees working from home. In addition, Kao has introduced a remote work system to create an environment in which employees who work while nursing or caring for sick or elderly family members or while receiving education can play an even more active role.

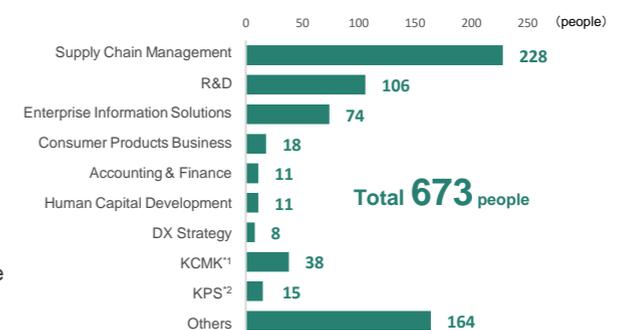


### Wider utilization of IT

In addition to the use of Robotic Process Automation (RPA) and chatbots, which we have been promoting for some time, we are also actively improving our processes and efficiency through new business applications.

The number of citizen developers who can build their own solutions has also increased, and as of February 2023, there were 673 creators and 2,862 projects. The extra capacity of individuals and organizations freed through these efforts will be allocated to such as more creative work and to reallocate personnel, thereby accelerating enhancements in efficiency.

Number of application creators in each division (As of February 2023)



\* 1 Kao Group Customer Marketing Co., Ltd. \* 2 Kao Professional Services Co., Ltd.

# Value Chain Reform

We will implement scrum-style and integrate our diverse knowledge to take on challenges swiftly with courage.



We will implement scrum-style and come together as we take on challenges.



REFORM

1

# Marketing and Sales Strategy

Deliver optimal value to each and every consumer through loyalty marketing

## Shift to loyalty marketing

We work to be even closer to consumers and propose new lifestyles (Life Value Solution) to make shift toward loyalty marketing that strengthens our bonds with consumers.

The key to loyalty marketing is to build an environment that enables consumers to accurately judge on their own whether a product suits them and encounter products that can satisfy them.

We launched an interactive digital platform called My Kao with direct-to-consumer (D2C) functions to serve as a place for each and every person to choose products that suit them. We also launched Toyohashi Connected Flexible Factory, which enables efficient high-mix low-volume manufacturing. Through these efforts, we are promoting manufacturing that suits each and every individual, and are accelerating our transformation to loyalty marketing. At the same time, we will seek high-profit businesses by streamlining marketing costs and minimizing inventory and disposal.

### Mass Trial Model

High-mix and high-volume products, large-volume mass-media advertising



Manufacturing for mass-market needs  
Large volume inventory and disposal

### Targeted Loyalty Model

Highly personalized products, precise and reliable information



Manufacturing for the individual to brighten personality  
Less disposal

## Purpose driven brand design for all

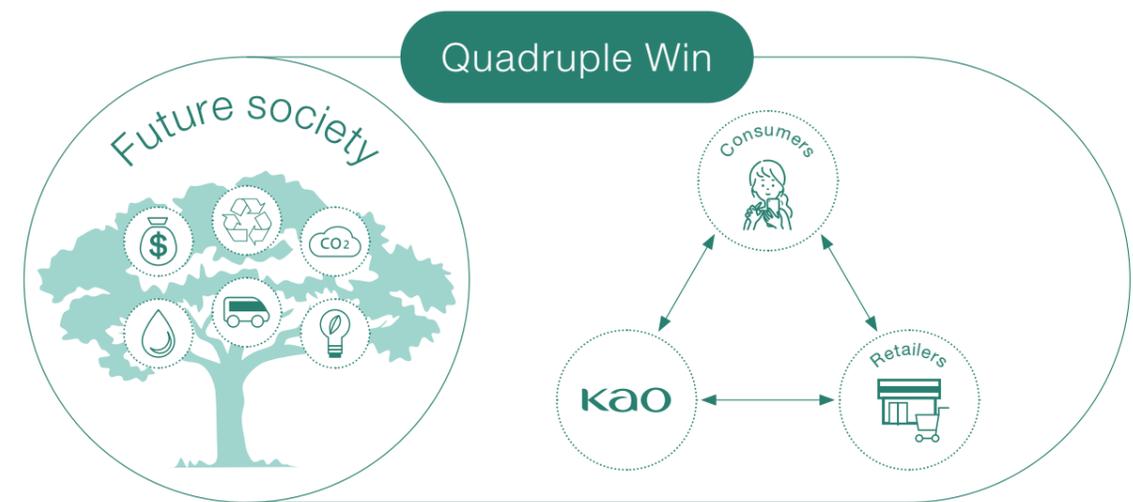
Our product brands serve an important role as touchpoints between consumers and us. We aim to not just realize comfortable lives for consumers, but also contribute to sustainability in society and across the planet as we define each brand's purpose. Based on each brand's purpose, we provide brands and services while carrying out various activities as we gain empathy from consumers and act together with them, thereby further strengthening our bonds. In addition, we carry out design activities so that our unique brand groups create synergy, letting us utilize our strengths arising from having developed many brands.

## Quadruple win: evolving our value co-creation with customers and retailers

Our Sales Division serves to deliver products and services with value from us to consumers. It has worked to realize "Triple Win" for consumers, retailers and Kao itself.

There have been rapid changes in recent years, such as diversification in products, increasing channel complexity, a shift to electronic payments, and the acceleration of direct delivery. Through collaboration with retailers, we are expected to contribute not only to

consumers' lives, but also to sustainability in society and economy. We must add a future-oriented perspective to "Triple Win" and evolve our sales and marketing activities for "Quadruple Win" that additionally enables a win for our future society. Together with retailers, we will eliminate unreasonableness, waste and inconsistency in the value chain that delivers products and services to consumers, and we will seek to achieve a spiral up in profit for both sides.



### Engaging in customer transfers and sharing life hack information

We work with individual retailers and engage in reciprocal customer transfer. In order to motivate Kao product purchase at retailers and continue to improve customer satisfaction, we send out our life hack information through retailers' digital content as well as POS, so that customers can experience the most value from Kao products.

### Promoting ethical consumption

In 2022, we carried out SDGs campaigns together with manufactures in other industries, retailers and consumers. Going forward, we will expand our scope of collaboration even further to local communities, environmental organizations and other groups and promote ethical consumption.

### Realizing sustainable logistics

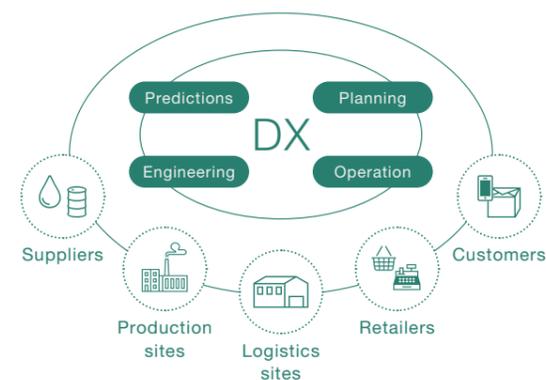
The logistics crisis caused by the shortage of drivers is an important issue we should address together with our partners. We are promoting connected logistics to enhance logistics efficiency with retailers and other partners.

REFORM

# 2

## Supply Chain Management Strategy

Transform our business models and boost profitability by building a resilient supply chain



Kao started to achieve centralized management of all information ranging from raw material procurement to sales in 1966. We have established and evolved an efficient approach to supply chain management based on high prediction accuracy for each product. However, in the face of diversifying lifestyles, structural changes in the retail business and the logistics crisis, it is not enough for us to simply strive for efficient mass production.

Starting in 2021, we are driving various initiatives to fundamentally transform the supply chain with an end-to-end perspective. More specifically, we are introducing AI, robots and other advanced technologies in all processes while reinforcing links between data. We are also working to improve demand forecast accuracy, production stability and efficiency, and agility in the face of changes in demand or disasters as well as to take efficient action for personalization. These initiatives will bring a dramatic increase in productivity across the supply chain and provide strong support for boosting the profitability of our businesses and transforming our business models. Increases in productivity within the supply chain will directly contribute to waste-material reduction and resources saving. We will also collaborate with partners in efforts to respect the human rights and to preserve biodiversity in the supply chain.

Productivity improvement	<ul style="list-style-type: none"> <li>· Demand forecast accuracy</li> <li>· Production stability and efficiency</li> <li>· Agility in the face of changes in demand or disasters</li> <li>· Action for personalization</li> </ul>
Environmental impact reduction	<ul style="list-style-type: none"> <li>· Resource and energy saving</li> <li>· Waste-material reduction</li> </ul>
Operational burden reduction	<ul style="list-style-type: none"> <li>· Respect for human rights</li> <li>· Improvement of job satisfaction</li> </ul>

### Genba DX: employees at the Genba voluntarily driving DX

Starting in 2020, we have been advancing efforts for going paperless and automating simple tasks by introducing robotic process automation (RPA) and low-code application development for daily work. To realize digital transformation (DX) across a supply chain composed of many processes, it is key to boost the IT literacy of the employees who are familiar with their work. We are training key users who will be responsible for promoting DX in each plant, and have built a backup framework for these users to train others. As a result, we have achieved business process improvement in a short period of time. By sharing information on the fruit

of these efforts, more and more employees are participating, resulting in a greater acceleration for DX in the Genba.

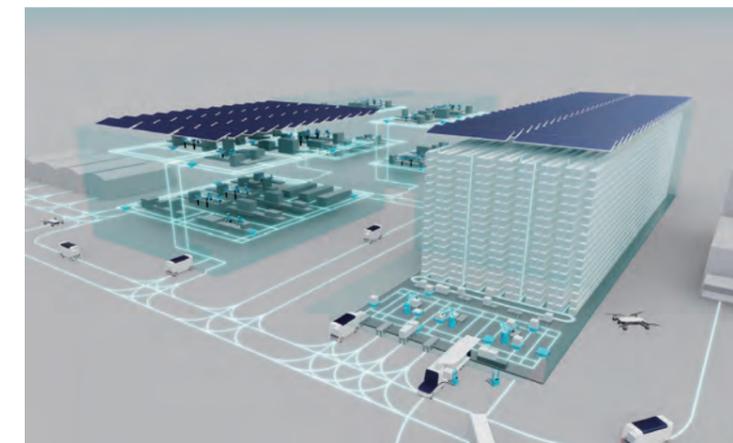
Alongside these activities, we are also working to build a data lake for accumulating and utilizing the vast amount of data in various granularities generated from the supply chain. As a result, it is now possible to harness the wisdom of veteran employees among the next generation, and also to produce new ideas. Going forward, we will link marketing and R&D with this data platform and develop this into a data lake for Kao as a whole.

## New supply chain base with integrated production and logistics functions

To address demand fluctuations and a shrinking workforce, we are working to build a new integrated production and logistics base.

Toyohashi Connected Flexible Factory started in 2023 includes a flexible production system using robots, AI and other technologies, as well as a fully automated

warehouse with excellent environmental performance. We also seek to engage in integrated operations with our Logistics Center, to make contributions toward boosting productivity and reducing environmental impact and workload.



#### Our goals for the new integrated production and logistics base

- Less waste and less time required when supplying products
- Lower logistics costs
- Traceability management
- Lower environmental impact by introducing electric/fuel cell trucks and photovoltaic power generation
- Better work environment through partial or full automation of logistics operations

● Toyohashi Connected Flexible Factory

## Developing systems for efficient high-mix low-volume production

In collaboration with B&R K.K. and Kyoto Seisakusho Co., Ltd., we have developed decoration processing technology to design individual products in a freeform manner and dynamic cell production technology to realize efficient high-mix low-volume production. We plan to start running a new production system in FY2023 using these new technologies.

This new production system will allow us to engage in the simultaneous production of many types of products, as the system allows for product types to be switched flexibly and swiftly and to provide products to suit the needs of individual customers. By utilizing this production system, we will accelerate our shift to a marketing approach that reduces environmental impact while also achieving personalization.



● Dynamic cell production technology that enables efficient high-mix low-volume production



● Proposing personalized products using new decoration processing technology

REFORM  
3

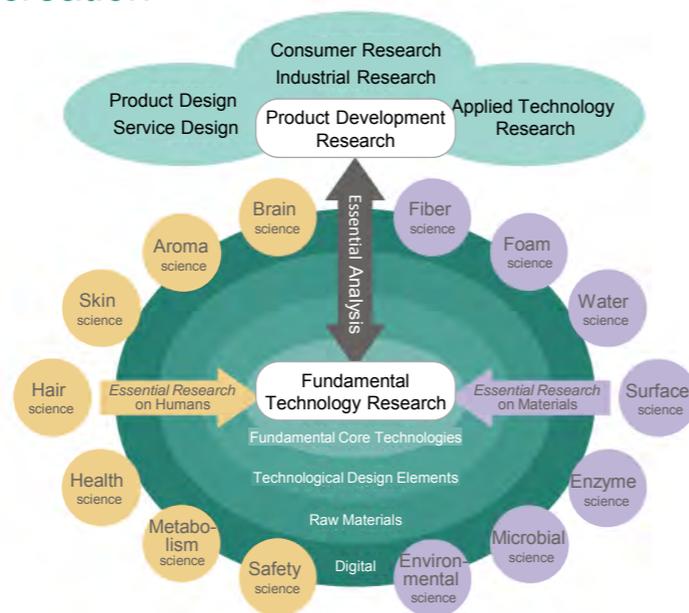
Challenge to create new value through integrating our strength in wide variety of business domains

Research Strategy

Our dedication to Essential Research and our approach to value creation

Essential Research is the driving force for Kao's research activities. "Essential" refers to the universal nature and functional mechanisms identified by looking at human and physical phenomena using the lens of science to contribute toward technology assets.

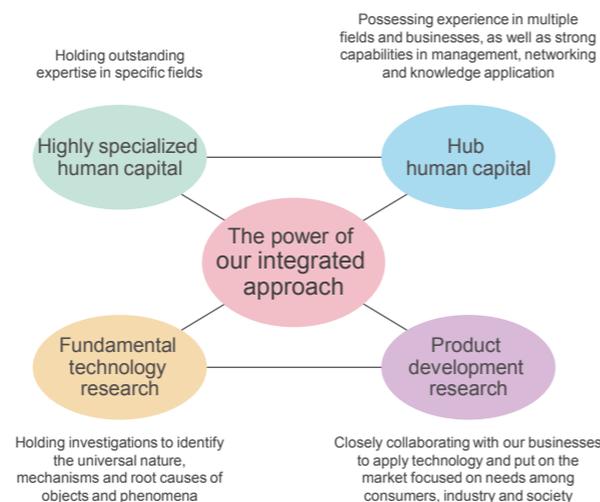
Kao has developed precise interfacial control technology ever to target skin, fiber and many other objects. We freely combine this core technology with many other technology assets, and link them with the needs of society, customers and industry to create unique products and services.



Structure and human capital for the power of our integrated approach

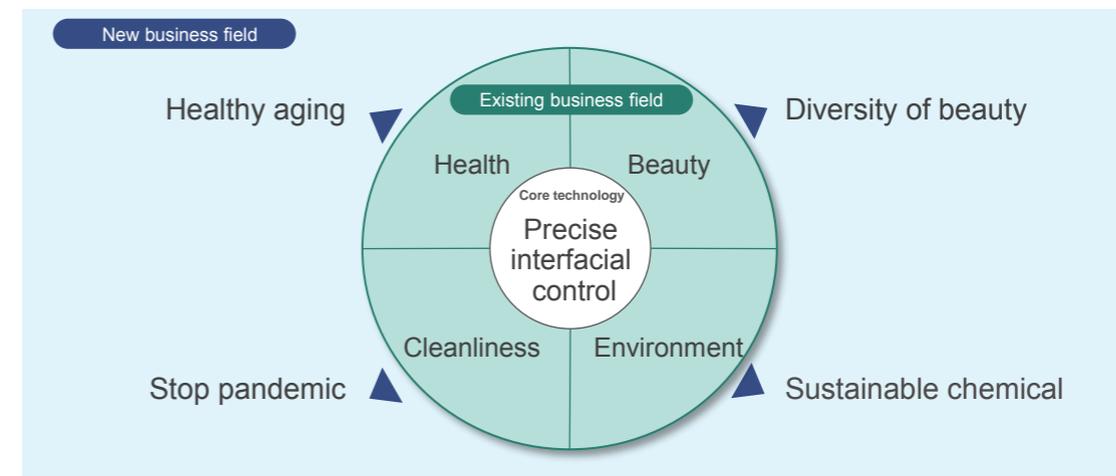
We are building a management system in Research and Development to gather knowledge in a cross-organizational and cross-disciplinary way. Flexible collaboration at research laboratories for fundamental technology and product development helps us quickly respond to change. By nurturing highly specialized human capital with strong expertise in specific fields alongside hub human capital who excel in integrating skills and networking, we can maximize the power of our integrated approach.

We accelerate the creation of innovation by utilizing data in a more advanced way by promoting DX. We also promote new discoveries and the exchange of ideas at presentation sessions where all researchers can join and hold discussions, as well as through opportunities for co-creation with universities and other partners.



Research strategy for business expansion

We will enhance and evolve value creation in four areas Cleanliness, Beauty, Health and the Environment to respond to four social issues such as Environmental issues, Population aging, Pandemics, and Challenges associated with diversification. We will create new businesses that transcend the boundaries of these areas in a direction that matches future trends.



Approaches for revitalizing and bolstering existing businesses and creating new businesses

Revitalize and bolster existing businesses by refining existing technologies and new technologies

Provide new value in Cleanliness, Beauty, Health and the Environment to solve problems in existing businesses

- Pursue high added value and reduce environmental impact for products and services by carefully selecting raw materials and refining technologies for water and energy conservation
- Promote DX and the advanced use of technology assets and data to accelerate product development
- Utilize customer data gained through D2C platforms
- Develop efficient high-mix low-volume process engineering to accommodate the shift toward personalization
- Accelerate the creation of innovations that meet local needs as well as global expansion
- Explore and utilize safer, greener and cheaper raw materials

Expand business domains in adjacent areas

View technology assets from a new perspective and provide new value to adjacent areas

- Hygiene: safe and secure measures against infectious diseases using bacteria/virus control technologies that are easy to integrate into people's daily routines
- Holistic approaches: health and beauty solutions using RNA monitoring technology
- Upcycling: horizontal material recycling technology for used plastic film packaging, asphalt modifiers using waste plastic
- Food and infrastructure: adjuvants that help to boost food production with fewer agricultural chemicals, solutions that help to strengthen infrastructure, such as increasing the durability of roads and buildings

Accelerate innovation and create new businesses in neighboring areas

Use back-casting from the future to accelerate innovation that will contribute to new businesses in neighboring areas

- Sustainable chemical: reclaiming plastic, recycling CO<sub>2</sub>
- Healthy aging: health care services that prevent geriatric syndromes
- Stop pandemic: everyday, effective technology to prevent the spread of infection as infectious diseases become the norm
- Diversity: precision life care technology to accurately measure or estimate differences between individuals

REFORM

# 4

## IP Strategy

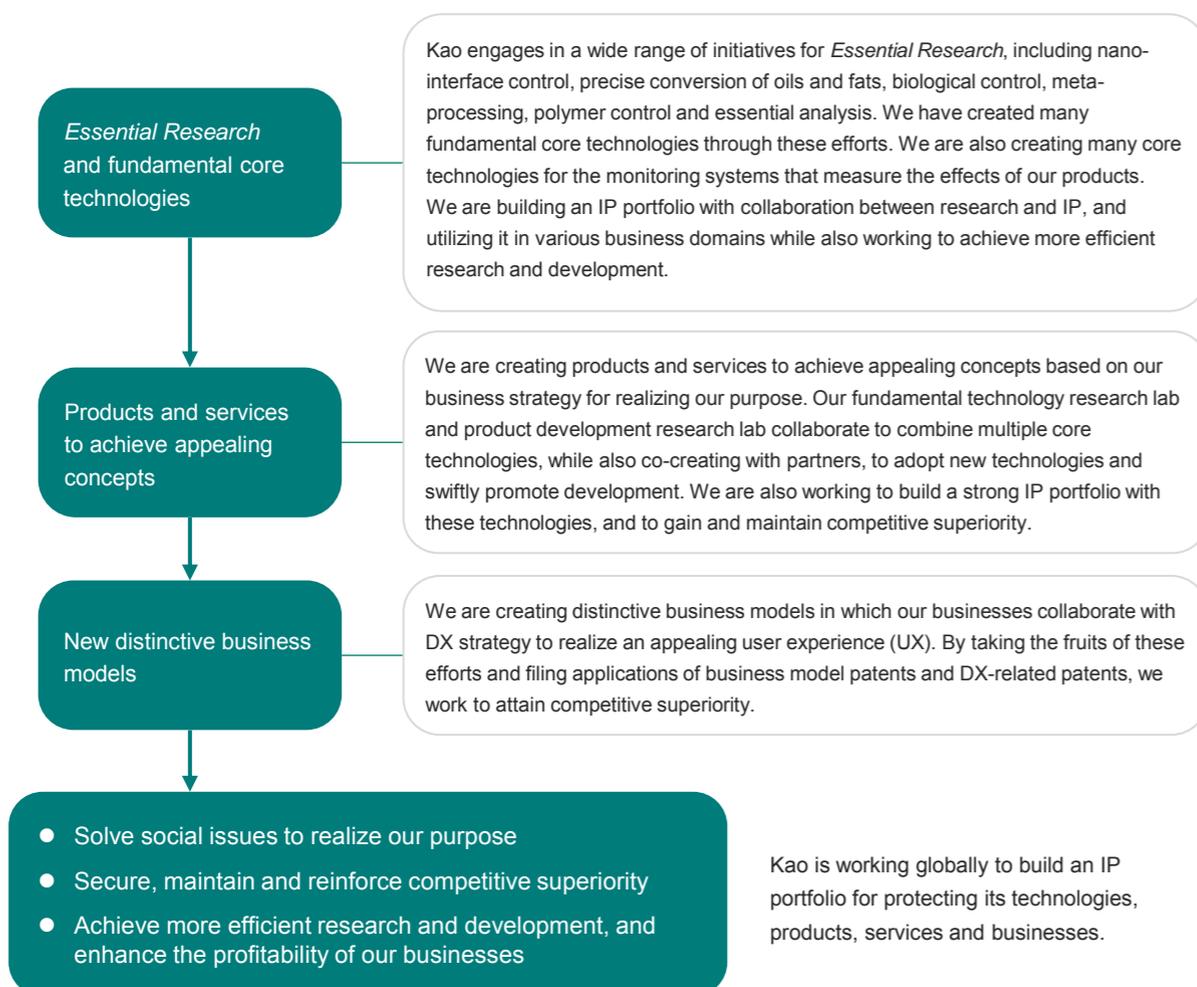
We regard intellectual property (IP) as an important management resource and strengthen our global capabilities for creating, protecting and utilize IP for mid- to long-term corporate value enhancement and for helping to realize a sustainable world.

We are pursuing to build an IP portfolio in order to protect and utilize the fundamental core technologies created through our Essential Research, the technologies for making products and our unique business models.

Our IP strategies and activities are closely linked with our business strategies and research strategies for promoting Reborn Kao (RK) and Another Kao (AK). In addition, we will bolster collaboration not only internally but also with other industries.

**Collaborate with business, R&D and industry**  
to help enhance corporate value and realize a sustainable world

### Building an IP portfolio that protects our technologies, products and businesses



### Efforts to build an IP portfolio to protect technologies, products and businesses: Case study in sebum RNA monitoring

**Establish core technologies through Essential Research**

We discovered that it is possible to understand a person's current physical status by conducting a high-precision analysis on the RNA contained in sebum, and we established this as a core technology to develop many fundamental technologies.

**Develop technologies for products and services**

We are driving efforts to develop technologies for such as gaining a highly accurate understanding of the skin's status, detecting signs of atopic dermatitis and other diseases, and storing and transporting sebum RNA at room temperature.

**Introduce new business models**

We are verifying business models using RNA monitoring in various business domains. Among these models, we have started a mail-in testing service called *Baby Well Check* to understand the skin barrier status of babies and infants.

Sebum RNA analysis

Information in RNA

### Making IP contributions for bolstering and maintaining product and brand loyalty

**Assist brand development**

It is extremely important to manage trademarks and design rights in order to develop strong brands on a continued basis. We support schedule management all the way from preliminary searches to applications and registration for trademarks so that names can be decided on in a timely manner within the development process of products and services. We hold preliminary clearance searches for design rights and trademarks to minimize reputation risks when dealing with new names and designs.

We strive to secure rights in a broader scope to protect our brands in the face of increasingly diverse products and services. We are also engaging in a mixed IP strategy that combines multiple types of IP rights to protect our products organically and in a multifaceted way.

**Exercise our rights resolutely against counterfeit products**

If we notice that another company has infringed on our rights, we will take stringent legal action. In recent years, we have been focusing particular effort in measures against increasingly complex and sophisticated counterfeit products in Asia and other regions. We reinforce our market monitoring and collaborate with government authorities, e-commerce site operators and other companies in the industry to work thoroughly on rapid detection and removal of infringing products. Going forward, we will strengthen this framework and make steady efforts to eliminate and expose counterfeit products.

### Utilize IP in an advanced way to realize our purpose

**Utilize IP through open innovation**

To address tough social issues and develop new business models, we will form collaborations with industry, academia, government and other organizations for the co-creation of new technologies, while also flexibly licensing and providing access to these technologies, thereby promoting the development of new businesses with co-creation partners.

Our business divisions unite with our personnel in R&D and IPD in open innovation projects where IPD personnel with refined knowledge train members about IP. Alongside this, intellectual property coordinators give support in various ways for both internal and external co-creation, such as by providing advice, collecting information and giving out analysis data, while also managing information and contracts management to prevent technological contamination.

**Utilize IP landscape analysis**

To establish competitive superiority and achieve co-creation with suitable partners, we utilize IP landscape analysis to explore new directions for research and development, to consider new businesses using existing technologies and to select co-creation partners.

# Our People

New Era,  
New Challenges



RNA monitoring is a technology that can understand the status of skin or inside the body by analyzing sebum collected from a single oil-blotting film.

I was interested in the sebum secretion mechanism, and when proceeding to study it, I discovered that sebum included RNA information for over 10,000 genes. I was shocked by this discovery and felt it had significant potential. It was surprising because it is considered to be a disadvantage for such information to exist on the skin surface. This would allow for RNA information to be easily collected without damaging the skin, unlike skin biopsy. On the other hand, Kao does not have experience in business with testing for humans, and so there were concerns about commercialization. However, like-minded people who sensed the potential of this technology made progress on a daily basis while exchanging opinions and knowledge, thereby realizing social implementation. This project gave me a newfound appreciation for the importance of maintaining resolve as well as collaborating and sharing knowledge with people from different positions.

There is an abundance of products and information around us. RNA monitoring, which can know condition of one's skin and inside the body, serves as a bridge for consumers to find the products and services that suit them best out of this multitude. We aim for a world in which we can bring smiles to many people with this technology.



## Aiming for ultimate personalization through RNA monitoring technology

Takayoshi Inoue

Sebum RNA Project, Biological Science Research, Core Technology Research, R&D

1

Kao to Start a Health Testing Business Employing Skin Surface Lipids-RNA Monitoring Technology  
[www.kao.com/global/en/newsroom/news/release/2023/20230308-001/](http://www.kao.com/global/en/newsroom/news/release/2023/20230308-001/)

Dengue fever is an infectious disease spread by mosquitoes and is one of Thailand's most severe social issues. *Bioré GUARD Mos Block Serum* launched in June 2022 as a skin care product that prevents mosquitos from landing on the skin, based on a completely new idea from conventional repellents. Alongside this launch, product information and information on the #GUARD OUR FUTURE project were widely communicated.

Consumers showed interest and desire to try the products, and the ease of use and nice scent impressed those who tried it. We received positive feedback from more and more retailers as well. This project has been gaining a lot of interest and is well-received among both public and private sectors and so on. Dengue fever is a serious risk to the lives of children. We held educational events at schools and children's hospitals. Going forward, we will build collaborative relationships with even more institutions and accelerate initiatives for protecting future lives.



## Protecting future lives from dengue fever: the #GUARD OUR FUTURE project

Pongchan Kongnim

Senior Category Manager, Marketing, GUARD OUR FUTURE Project Manager, Kao Industrial (Thailand)

2

Kao Launches *Bioré GUARD Mos Block Serum*, a Newly-developed Mosquito Repellent Product, in Thailand  
[www.kao.com/global/en/newsroom/news/release/2022/20220615-001/](http://www.kao.com/global/en/newsroom/news/release/2022/20220615-001/)



## Bringing people smiles by giving them the hair they want: developing sustainable wigs

Tomoko Uchiyama

Hair Care Business, Health & Beauty Care Business, Consumer Products Business

I am in charge of hair care product development and constantly think about what value people seek for hair and how to realize this. However, hair comes in many different types, styles and colors, and many people feel they cannot get their hair styled in exactly the way they like. Through a daily process of exploring how we could approach this diversity, we arrived at the idea of eliminating factors that prevent people from realizing their ideal hair. We seek a world where everyone can freely realize the hair they want without being constrained by their own physical hair. As such, we seek to make wigs and extensions more familiar as means for people to realize their ideal length, style, volume, color and so on. This idea is the starting point of our sustainable wig concept.

I was involved in developing technology to fundamentally improve the state of damaged hair. One day, I learned that people with alopecia are deeply concerned about how wigs can be easily damaged, and I came up with an idea to solve this through Kao's technology. Like-minded individuals came together in an unprecedented initiative, as Kao had only ever worked with living human hair until then, and we successfully developed Sustainable Fiber. It looks natural and is durable, so I imagine patients will be able to use it every day without worrying about damage. We seek to help bring a comfortable lifestyle to various people by applying this technology to wigs and many other areas.

Junichi Furukawa

Hair Care Products Research, Products Development Research, R&D

3

## Giving support to *talking hands* with our *Guhl* hair care brand

### Armin Haery

Consumer Care Business,  
DACH & Guhl Europe

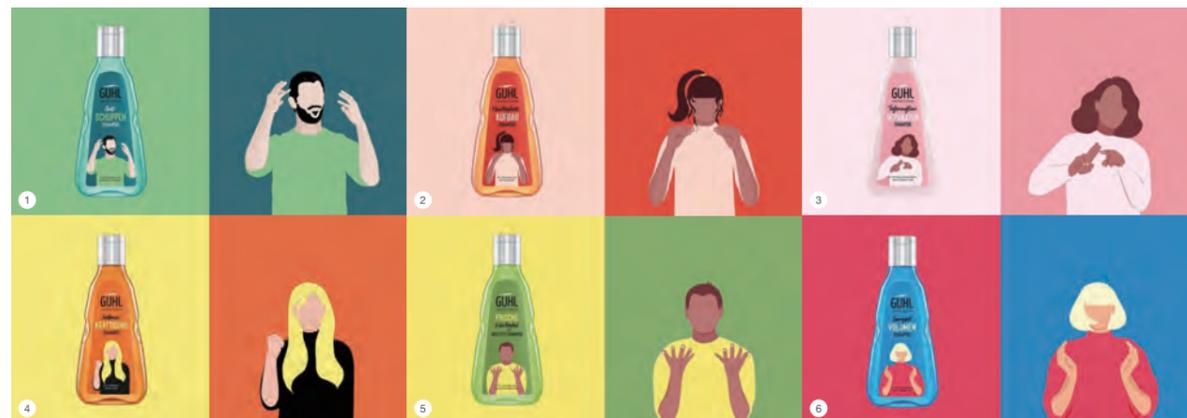
4



This initiative was sparked by the inspiring work of the start-up *talking hands* that aims to overcome language barriers and promote inclusive communication with the help of colorful flipbooks that help children learn signs. As the hair care brand *Guhl*, we “talk” to our consumers every day, so we thought “why not use illustrations of signs in our brand communication?” To give a platform to *talking hands*’ mission, we created product labels that depict the shampoo’s properties via colorful illustrations of signs. It was an exciting experience for us to see these *Guhl* bottles lined up in stores. We wanted to support a purposeful cause as well as to offer something relevant, unique and surprising to suit our customers who love *Guhl*. These two interlinked desires helped realize this wonderful collaboration.

Kao supports the start-up *talking hands* with iconic hair care brand *Guhl*  
[www.kao.com/emea/en/news/2022/5/5\\_kao\\_supports\\_talking\\_hands\\_with\\_hair\\_care\\_brand\\_guhl/](http://www.kao.com/emea/en/news/2022/5/5_kao_supports_talking_hands_with_hair_care_brand_guhl/)

These products are sold in Germany.



- 1 Anti-Schuppen (Anti-Dandruff)
- 2 Feuchtigkeitsaufbau (Moisture)
- 3 Tiefenaufbau Reparatur (Repair)
- 4 Intensiv Kräftigung (Strength)
- 5 Frische & Leichtigkeit Anti-Fett (Freshness)
- 6 Langzeit Volumen (Volume)

0★1 Kao launched in July 2021 as an open system to easily enable employees to propose ideas for new business and internal reforms. We have received many proposals so far, and some have brought a significant impact on internal and external affairs. I have worked for almost two years in 0★1 Kao as the Secretariat. In this position, I have witnessed many people’s dazzling passion when they offered proposals—in some cases when one proposer started an initiative and formed one team with those who resonated with the business vision; and in other cases when a proposer came up a clearer business concept by working steadily to look closely at customers’ opinions. It has been a great pleasure to see proposers grow on a daily basis and become filled with energy through 0★1 Kao.

I will push forward so that even more people will gain a strong aspiration to change Kao and the world, and thereby work to create businesses for the new face of Kao in the future.



## 0★1 Kao: changing Kao through each and every employee’s passionate desires

### Takato Kondo

0★1 Kao Office, Corporate Development,  
Corporate Strategy

5



Kao accelerates women’s empowerment and provides support for balancing work and childcare to promote engagement as one of its priority actions.

I recently gave birth and myself sometimes feel difficulty in balancing work and childcare. I am developing various measures with the goal to build an environment in which many female employees in a similar situation can engage more positively with work.

For women to be able to balance work with childcare, it is crucial to build an environment so that they can actively envision and realize their ideal career. It is also vital to eradicate the mindset of gender-based divisions of labor at home and in workplaces. To realize this, we implemented seminars for our employees and their partners to establish an environment for balancing work and family life, realizing women’s ideal careers by removing stereotypes. We also revised our systems to encourage the continuation of women’s careers.

I will promote activities to achieve an environment where employees can fully exert their willpower and abilities to gain success.

## Support for balancing work and childcare to promote engagement

### Hayuru Suzuki

Diversity & Inclusion,  
Human Capital Strategy

6

Kao Accelerates Promotion of Women’s Empowerment by Establishing and Expanding Its Child-care Support System  
[www.kao.com/global/en/newsroom/news/release/2023/20230117-001/](http://www.kao.com/global/en/newsroom/news/release/2023/20230117-001/)

Chapter 3

# Corporate Governance

— The basis of our management

We will build diverse and robust governance to support sustainable corporate value enhancement.



We will give firm support to what matters.



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



Creating an open environment  
and sparking active  
deliberation

Outside Director  
Chairperson of the Board of Directors

### Osamu Shinobe

Kao's board was extremely busy in FY2022. In the face of severe business environment conditions, we held deliberations on progress in the Mid-term Plan 2025 (K25) while tackling challenges for FY2022 performance. We also held deliberations on viewpoints for mid- to long-term corporate value enhancement, such as corporate governance, human capital strategy and the ESG Strategy.

To enhance the effectiveness of the Board, it is vital for all members to demonstrate their own knowledge, experience and values to the maximum possible extent. One of Kao's strengths is the way open-minded deliberations are carried out regardless of each member's position. As Chairperson, I focus efforts toward building an environment to facilitate even franker opinion exchange. I have implemented creative ideas such as increasing opportunities for receiving reports on Kao's businesses and for casual talking.

Kao is currently at a crucial juncture. It is important to deliberate the challenges on K25, quickly promote structural reforms in existing businesses, and develop competitive businesses that respond to environmental changes. The Board of Directors understands the current situation in a timely manner, identifies issues and makes decisions more swiftly, and will strongly support these executions.



A passionate Board of  
Directors with ambitious and  
talented members

Outside Director

### Eriko Sakurai

I was appointed as an outside director of Kao in March 2022. The impression of Kao that I had upon assuming this position was no different from my external perspective as a consumer, which surprised me. Isn't this consistency the essential quality of a company that can be trusted?

I also feel a strong sense of engagement from members in the Board of Directors. For Directors and Audit & Supervisory Board Members to fulfil their duties entrusted to them by shareholders, I believe it is important for each member to have the passionate desire to contribute to success of Kao, and to make best use of insight and skill. Kao's Board is a passionate one that puts this concept into practice. The executives respond flexibly and rapidly to proposals from the Board.

In the third year of K25, it is crucial to formulate and execute realistic strategies that reflect environmental and market changes based on this vision. I will hold deliberations and monitor progress to make sure this is being achieved.

Kao has incredible technologies and an innovative spirit for creating truly unique products and services. To make full use of these assets, it is crucial to incorporate various values and opinions into decision-making. I will also focus on whether management is carried out in a manner that can compete with global competition.



Aiming for corporate  
governance that incorporates  
opinions from the *Genba*\*

Outside Audit & Supervisory Board Member  
Chairperson of Compensation Advisory Committee  
for Audit & Supervisory Board Members

### Hideki Amano

\* In Japanese, *Genba* means the actual spot or on-site.

In Kao's Audit & Supervisory Board, Outside Audit & Supervisory Board Members also participate in division interviews and on-site visits, meaning that members work with a sense of unity. As many members as possible participate in interviews and on-site visits, and audits are conducted from on diverse viewpoints from individual careers and insight. At the end of interviews and on-site visits, we summarize matters based on three categories: comments and requests, advice and excellent initiatives. These details are shared with the audited divisions to rapidly engage in the PDCA cycle. I believe that Kao has an open corporate culture in which people from the audited divisions consult with members about challenges and issues.

The structures and systems for audits and supervision have been continually improved in 2022. The support system was strengthened, and the Group governance system has been strengthened, such as with staff members of the Office of the Audit & Supervisory Board concurrently serving as auditors of subsidiaries. By actively exchanging views, I encourage viewpoints from Audit & Supervisory Board Members to be incorporated in executive monitoring.

FY2023 is the halfway point for K25. I will closely watch the process and results of structural reforms while helping to achieve appropriate corporate governance from the perspective of integrated risk management and internal control.



## Stance on balance among knowledge, experience and skills, and on diversity and size of the Board of Directors

Kao stated the Vision of “Protecting future lives – Sustainability as the only path” in K25. In order to achieve this, the management team carries out operations in line with three policies; 1. Become an essential company in a sustainable world; 2. Transform to build robust business through investment (Revitalize existing businesses and Create new businesses); 3. Maximize the power and potential of employees.

To supervise that the management team is executing business in accordance with the above policy,

we believe it is important that Inside and Outside Directors and Audit & Supervisory Board Members can complement each other's knowledge, experience and skills and the Board of Directors can demonstrate high effectiveness. We recognize that the Board of Directors can make better contributions toward driving business and appropriate supervision and auditing when it has multifaceted perspectives informed by diversity in addition to knowledge, experience and abilities. We have a target for women to hold 30% of seats on the

Board of Directors by 2025.

We will reduce the size of the Board to achieve swift decision making, while taking care to maintain a good balance of diverse personnel. In addition, in order to ensure diversity and independence, outside members will occupy approximately half of the seats on the Board of Directors and Audit & Supervisory Board Members.

### Skill Matrix and Attending Members

	Name	Affiliation			Experience/Knowledge/Expertise										Main reasons for marking “✓”	Attending organization					Attendance in FY2022			
		Term of office	Gender	Nationality	Management	Global	Consumer goods industry	Chemical industry	Human capital strategy	Research	Environment/society	IT/DX	Legal/risk management	Finance/accounting		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	Directors	Audit & Supervisory Board Members		
Directors	Michitaka Sawada	14 years and 9 months	Male	Japan	✓		✓	✓	✓	✓	✓					•Experience as the Company's Representative Director, President and CEO •Experience as the Company's officer responsible for Human Capital Development •Experience in the Company's R&D (fundamental and applied technologies) •Chair of Japan Clean Ocean Material Alliance (CLOMA)	✓			✓			100% (14/14)	—
	Yoshihiro Hasebe	7 years	Male	Japan	✓	✓	✓	✓	✓	✓	✓	✓				•Experience in the Company's R&D (including experience in global operations, and knowledge of fundamental and applied technologies and matter cycle research) •Experience at the Company's overseas business promotion projects •Experience as the Company's Senior Vice President of Strategic Innovation Technology, Global •Experience as the Company's officer responsible for Human Capital Development	✓			✓			100% (14/14)	—
	Masakazu Negoro	—	Male	Japan		✓		✓						✓		•Experience in the Company's Chemical Business and management experience at overseas subsidiaries (Chemical Business) •Experience at the Company's Procurement, Global (including promotion of sustainability activities in procurement) •Experience as the Company's officer responsible for Accounting & Finance	✓			✓			—	—
	Toru Nishiguchi	—	Male	Japan		✓	✓									•Experience in the Company's Consumer Products Business •Experience in management at the Company's overseas subsidiaries	✓						—	—
	David J. Muenz	1 year	Male	United States		✓	✓		✓	✓						•Experience in research and business at the Company's overseas subsidiary •Experience in the Company's ESG, Global	✓						100% (11/11)	—
	Osamu Shinobe	5 years	Male	Japan	✓									✓		•Experience as the top executive of a major international airline (including experience as Chairman of CSR and Environmental Management Committee)	Chair		✓	✓	✓		100% (14/14)	—
	Chiaki Mukai	4 years	Female	Japan		✓				✓	✓					•Knowledge of space science research (medicine and life) •Experience with NASA	✓		Chair	✓			100% (14/14)	—
	Nobuhide Hayashi	4 years	Male	Japan	✓	✓										•Experience as the top executive of a major international financial institution •Mostly worked on international assignments, including more than 13 years of work outside Japan	✓		✓	Chair			100% (14/14)	—
	Eriko Sakurai	1 year	Female	Japan	✓	✓		✓	✓		✓					•Experience as the head of a global division and the regional head of a major U.S. chemical company •Experience in overall human resources strategy including compensation, development, and assignment in global businesses •Knowledge of sustainability in the chemical field	✓		✓	✓			100% (11/11)	—
Takaaki Nishii	—	Male	Japan	✓	✓	✓		✓							•Experience as the top executive of a major food company •Experience in management of overseas subsidiaries •Experience in the human resources department of such major food company	✓		✓	✓			—	—	
Audit & Supervisory Board Members	Yasushi Wada	—	Male	Japan		✓							✓		•Experience in the Company's Product Quality Management •Experience at the Company's global production sites •Experience in the Company's process engineering development and plant management	✓	Chair					—	—	
	Sadanao Kawashima	2 years	Male	Japan										✓		•Experience in the Company's Finance Department •Experience in the Company's Department of Internal Audit	✓	✓					100% (14/14)	100% (9/9)
	Hideki Amano	6 years	Male	Japan		✓			✓				✓	✓		•Certified Public Accountant •Served overseas and the head of the global audit network for the Asia Pacific region •Experience in human capital strategy, risk management, etc., as the COO of audit and consulting operations	✓	✓	✓	✓	Chair		100% (14/14)	100% (9/9)
	Nobuhiro Oka	5 years	Male	Japan									✓			•Attorney-at Law •Professor at Keio University Law School	✓	✓	✓	✓	✓		100% (14/14)	100% (9/9)
	Takahiro Nakazawa	3 years	Male	Japan										✓		•Certified Public Accountant	✓	✓	✓	✓	✓		100% (14/14)	100% (9/9)

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

Members attending each organization are marked with “✓.”

## Reasons for selection based on experience/knowledge/expertise

Experience/knowledge/expertise	Reasons for selection
Management	In order to effectively supervise the business execution by management and realize appropriate risk-taking and aggressive governance that encourages prompt and bold decision-making, it is necessary to have experience as top management.
Global	As part of its global strategies, we aim to provide one-of-a-kind value and shift to a local production for local consumption model. In order to properly offer advice and supervise the execution of these activities, it is necessary to have experience and insight in management positions outside Japan and at non-Japanese companies.
Consumer goods industry / chemical industry	In order to effectively supervise business execution through discussions with a bird's-eye view of our entire business domain and insight into future prospects, it is important to have a deep understanding of the business environment and market characteristics in the consumer goods and chemical industries.
Human capital strategy	Employees are our most important assets. In order to sustainably enhance corporate value, we have formulated and executed a human capital strategy based on our corporate strategy. It is necessary to supervise the adequacy and progress of this human capital strategy from expert knowledge and experience.
Research	Our research is the driving force behind the creation of innovative, high-value-added products and services and the enhancement of corporate value. It is necessary to supervise the maintenance and development of our research system and the effective utilization of the created technological assets.
Environment/society	In order to supervise the formulation and execution of ESG strategies that are integrated with our corporate strategies, it is necessary to have understanding of global trends in ESG and specialized knowledge of environmental and social issues.
IT / digital transformation (DX)	In order to realize K25, we believe that it is essential to have innovative initiatives that actively utilize IT and digital transformation, such as new business creation, digital marketing and digital communications, which are not an extension of existing initiatives. (Utilize executive officers and external human capital to compliment supervision by the Board of Directors.)
Legal / risk management	It is an important challenge in management to recognize various risks in corporate activities, manage them appropriately, and respond strategically, proactively, and ex post facto to legal matters.
Finance/accounting	It is a natural responsibility to ensure the reliability of financial reporting. In order to sustainably enhance corporate value by conducting management in consideration of the improvement of profitability and capital efficiency, based on appropriate capital allocation from a company-wide perspective, it is necessary to have experience, knowledge, and expertise in finance and accounting.

## Succession Plan

Kao places its human capital strategy, including measures for successors to the President and CEO, as a top-priority issues in management. Continued deliberations on this topic are held among the Board of Directors and the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members. With regard to succession planning for the President and CEO, we have indicated the requirements for human capital with a view toward the management environment in the next generation, and we are updating our list of successor candidates. We are

also using a skill matrix for developing each candidate and are deliberating on the insight and experience to reinforce going forward.

In FY2022, the President and CEO indicated the status of succession planning as described above. After deliberation on this point, a response was given regarding the need to suitably deliberate and execute the plan for developing candidates, as well as to make continual updates based on the business environment and the status of candidate development. These matters were reported to the Board of Directors. In addition, with respect to evaluation of the effectiveness of this Committee, it was noted that there is a need to continue deliberations and provide opportunities for Committee members to understand candidates better.

## Directors

	<b>Michitaka Sawada</b> Director, Chair	Date of birth: Dec. 20, 1955 Number of Kao shares held: 44,300 shares		<b>Osamu Shinobe</b> Outside Director Chairperson of Board of Directors	Date of birth: Nov. 11, 1952 Number of Kao shares held: 1,900 shares
	<b>Yoshihiro Hasebe</b> Representative Director President and Chief Executive Officer	Date of birth: Jul. 30, 1960 Number of Kao shares held: 15,300 shares		<b>Chiaki Mukai</b> Outside Director	Date of birth: May 6, 1952 Number of Kao shares held: 4,300 shares
	<b>Masakazu Negoro</b> Representative Director Senior Managing Executive Officer	Date of birth: Jan. 7, 1960 Number of Kao shares held: 8,800 shares		<b>Nobuhide Hayashi</b> Outside Director	Date of birth: Mar. 27, 1957 Number of Kao shares held: 1,200 shares
	<b>Toru Nishiguchi</b> Director Senior Managing Executive Officer	Date of birth: Nov. 18, 1961 Number of Kao shares held: 16,800 shares		<b>Eriko Sakurai</b> Outside Director	Date of birth: Nov. 16, 1960 Number of Kao shares held: 100 shares
	<b>David J. Muenz</b> Director Managing Executive Officer	Date of birth: Nov. 15, 1960 Number of Kao shares held: 500 shares		<b>Takaaki Nishii</b> Outside Director	Date of birth: Dec. 27, 1959 Number of Kao shares held: 1,000 shares

## Audit & Supervisory Board Members

	<b>Yasushi Wada</b> Full-time Audit & Supervisory Board Member Chairperson of Audit & Supervisory Board	Date of birth: Jul. 30, 1959 Number of Kao shares held: 14,100 shares		<b>Hideki Amano</b> Outside Audit & Supervisory Board Member	Date of birth: Nov. 26, 1953 Number of Kao shares held: 4,000 shares
	<b>Sadanao Kawashima</b> Full-time Audit & Supervisory Board Member	Date of birth: May 22, 1959 Number of Kao shares held: 17,900 shares		<b>Nobuhiro Oka</b> Outside Audit & Supervisory Board Member	Date of birth: Apr. 5, 1963 Number of Kao shares held: 2,300 shares
	<b>Takahiro Nakazawa</b> Outside Audit & Supervisory Board Member	Date of birth: May 30, 1958 Number of Kao shares held: 500 shares		<b>Yasushi Wada</b> Full-time Audit & Supervisory Board Member Chairperson of Audit & Supervisory Board	Date of birth: Jul. 30, 1959 Number of Kao shares held: 14,100 shares

## Board of Directors

The Board of Directors deliberates on major subjects regarding our management direction from multiple perspectives, and supervises the appropriate execution of management strategy based on diverse viewpoints. It also builds an environment to enable offensive management, by establishing an internal control system and risk management system.

In FY2022, we held an open-minded exchange of opinions about multiple topics including our vision for the Board of Directors and our human capital strategy. In addition, each month the Board receives business execution reports on the major topics deliberated by the Management Board.

### Activities of the Board of Directors – Discussion and implementation of further strengthening supervisory functions and delegation of authority to executive organizations

In FY2022, the Board of Directors deliberated with a focus on the following issues:

Theme	Details of deliberation
How the Board of Directors should function	<p>The Board of Directors discussed the ideal functions of its meetings and the following directions were confirmed: Kao's Board of Directors will conduct a substantial delegation of authority to the executive organizations, and further strengthen its monitoring function to encourage appropriate risk-taking by management and prompt and bold decision-making. In particular, the Board of Directors will effectively supervise the appropriate allocation of management resources, including human capital, and the adequate implementation of strategies by management. It also recognizes that it is the responsibility of the Board of Directors to develop internal controls and risk and crisis management systems, and will build and operate these systems appropriately.</p> <p>Based on the direction we are aiming for, the Board of Directors also discussed the following issues.</p> <ul style="list-style-type: none"> <li>· Revision of the criteria for submission of agenda items to the Board of Directors</li> <li>· Monitoring the progress and issues of the Mid-term Plan</li> <li>· Discussion of knowledge, experience, and skills required by the members of the Board of Directors</li> </ul>
Human capital strategy	<p>Discussions were held on the portfolio of human resources and organizations to confirm whether strategies and plans for maximizing the power and potential of employees and maximizing the use of human resources are appropriately formulated and implemented. It was pointed out that the Company should define roles and human resource requirements that will be necessary for future growth, rather than as an extension of existing strategies, and secure human resources strategically by systematically developing employees and appointing them from outside organizations. We will continue to confirm that these measures are being implemented, leading to fruitful results. We also discussed the progress and the results of the Objectives and Key Results (OKR). We will confirm that members of the Group will increasingly take on a variety of challenges and that further collaboration will be promoted through dialogue.</p>
M&A strategies	<p>After indicating the direction of corporate strategy and business transformation based on the business environment and competitive situation, we discussed the areas, factors, and estimated scale that should be acquired through M&amp;A to strengthen our business portfolio. We will continue to review the effectiveness of the strategy and progress of the plan.</p>
Sustainability (climate change risks/human rights, etc.)	<p>The Board of Directors received reports on the latest trends and Kao Group's initiatives on major ESG issues, such as climate change risks and opportunities (TCFD compliance), sustainable palm oil procurement (including human rights), and biodiversity, and confirmed the status of their promotion.</p> <p>We also discussed the need for ESG to be included into growth strategies and profitability. We will continue to review issues related to sustainability.</p>

Please refer to the Corporate Governance Report for matters to be deliberated by each committee.  
[www.kao.com/global/en/corporate/policies/corporate-governance/](http://www.kao.com/global/en/corporate/policies/corporate-governance/)

## Evaluation of the effectiveness of the Board of Directors

Based on the idea that the roles and responsibilities of the Board of Directors must be shared by the entire Board of Directors, we conduct an annual evaluation in order to make improvements aimed at enhancing its effectiveness. We believe that it is effective for all members who participate in meetings of the Board of Directors to conduct an evaluation using a method that entails expressing their own opinions and engaging in free and open discussion. Accordingly, we are currently conducting self-assessment by participating members at a Board of Directors meeting. However, recognizing the usefulness of evaluation from an objective perspective, we continue to consider the introduction of third-party evaluations.

For the FY2022 evaluation, prior to the exchange of opinions for self-assessment at the meeting of the Board of Directors held in January 2023, a survey of the nine Directors and five Audit & Supervisory Board Members was conducted on the topics below. Feedback on the results was then provided before the meeting, during which the discussions and exchange of opinions were conducted.

### Results of the FY2022 Evaluation of Effectiveness of the Board of Directors

#### 1. Structure, Status of Operation and Deliberations of the Board of Directors

FY2021 Issues	FY2022 Initiatives	Evaluation	Future Initiatives
Further improvements are expected to ensure substantial discussion at meetings of the Board of Directors.	<ul style="list-style-type: none"> <li>· Sent materials before meetings and received questions in advance.</li> <li>· Allocated half of the available meeting time to presentations and the other half to Q&amp;As.</li> </ul>	<ul style="list-style-type: none"> <li>· The Board operated effectively in general.</li> <li>· There were times when the information in reports was too granular, resulting in unfocused discussion.</li> <li>· Participants engaged in free, open, and constructive discussion, but in some cases, there was not enough time for substantial discussion.</li> </ul>	<ul style="list-style-type: none"> <li>· Use a report format to clarify the key points for discussion and reports.</li> <li>· Share Q&amp;As with all participants in advance so that more time can be allocated to substantial discussion based on those Q&amp;As.</li> </ul>

#### 2. Agenda Item Selection and Discussion

FY2021 Issues	FY2022 Initiatives	Evaluation	Future Initiatives
Necessary measures will include deepening discussions of issues that impede the achievement of K25, measures to resolve those issues, and actions to be prioritized, as well as conducting regular verification with greater awareness of PDCA	<ul style="list-style-type: none"> <li>· Discussed M&amp;A strategies and global strategies for achieving K25.</li> <li>· Created and distributed a table showing the status of progress of K25.</li> <li>· Had each of the businesses make reports.</li> </ul>	<ul style="list-style-type: none"> <li>· Information on the progress of K25 was shared.</li> <li>· Issues to be addressed in achieving K25 and interim summaries needed to be discussed in greater depth, including quantitatively.</li> <li>· There was a need for stakeholder relations strategies.</li> </ul>	<ul style="list-style-type: none"> <li>· Further visualize management indicators and deepen discussion of issues to be addressed in achieving K25 and interim summaries.</li> <li>· Present reports at the Board of Directors meetings before and after IR activities.</li> </ul>
Human capital strategy is a management issue for ongoing consideration, and it is necessary to deepen discussions of issues including the allocation, promotion and training of human capital needed for realizing K25 and the evaluation of executive staff.	Discussed human capital strategy reflecting business environment changes and business strategy (three times).	<ul style="list-style-type: none"> <li>· Human capital strategy was thoroughly discussed in FY2022.</li> <li>· There was a need for further discussion regarding matters such as relation to business strategy.</li> </ul>	Have Executive Officers engage in deeper discussion of human capital strategy, present reports and discussion at Board of Directors meetings.

Although ongoing initiatives and improvements are needed for continuing verification and discussion of internal control, the FY2022 evaluation concluded that internal control was being properly supervised. Some participants felt that there was a need for priority discussion of structural reforms under Reborn Kao and progress on Another Kao including M&A and other matters in addition to the verification of K25 and human capital strategy.

For the results of the evaluation of effectiveness Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members and Compensation Advisory Committee for Directors and Executive Officers, please refer to the Corporate Governance Report.  
[www.kao.com/global/en/corporate/policies/corporate-governance/](http://www.kao.com/global/en/corporate/policies/corporate-governance/)

## The Audit & Supervisory Board

The Audit & Supervisory Board Members are entrusted by shareholders to audit Directors' execution of duties from an independent standpoint, aiming to achieve the sound and sustainable growth of the Kao Group and establish governance that meets the trust of stakeholders.

In FY2022, we conducted auditing activities with a

shared sense of urgency and the necessity of reforms recognized by management with regard to the status of implementation of corporate strategy and the status of response to management environmental risks. We adopted a policy which recognizes that stakeholders are demanding a higher level of effective governance and an active disclosure of information.

### Particularly important points in Audit & Supervisory Board Members' activities

#### Lively exchange of opinions

The Audit & Supervisory Board Members attend important meetings and put emphasis on the decision-making process for reaching resolutions, and express their opinions as appropriate.

#### Dialogue with people at the actual sites (*Genba*)

In addition, the Audit & Supervisory Board Members conduct on-site audits and interviews of each division and subsidiary and affiliates. By placing importance on dialogue with people at the *Genba*, they confirm the degree of how well corporate strategy is being shared and whether proactive efforts are being made. They also identify any issues that occur at the *Genba*. At least one Outside Audit & Supervisory Board Member has participated in approximately 70% of the interviews.



### Composition and execution of duties of the Audit & Supervisory Board

The Audit & Supervisory Board consists of two Full-time Audit & Supervisory Board Members with internal execution experience and diverse knowledge and three Outside Audit & Supervisory Board Members with respective expertise and abundant experience.

In January 2022, the Office of the Audit & Supervisory Board (with five members) was newly established, to assist the Audit & Supervisory Board Members with their duties and to allow the members to serve concurrently as Auditors of subsidiaries.

### Deliberations by the Audit & Supervisory Board

Number of meetings held: 9  
Attendance rate: 100%  
Duration: Average of 2 hours and 14 minutes

17 resolutions  
Audit annual plan, audit report, etc.

38 matters considered  
Audit findings, the effectiveness of the group governance, etc.

Evaluation of the effectiveness of the Audit & Supervisory Board: Discussions at the Audit & Supervisory Board based on the results of the questionnaire led to the conclusion that the system at the Board as a whole was functioning effectively during FY2022.

#### Major contents of the evaluation

- The Audit & Supervisory Board conducts frank exchanges of opinions.
- The agenda items are proactively selected matters to be considered.
- Information sharing and support by the newly established Office of the Audit & Supervisory Board have been also strengthened.

Going forward, we hope to deepen discussions on the skill matrix of the Audit & Supervisory Board, which aims for greater diversity.

### Key audit items, achievements and evaluation of effectiveness

Key audit items	Audit method	Activity results and evaluation of effectiveness
Status of execution of duties by Directors	Attend meetings of the Board of Directors to confirm the status of deliberations	All Audit & Supervisory Board Members attended all meetings. All of them actively expressed their opinions.
	Attend important meetings such as the Management Board to confirm decision-making process and request explanations as necessary	Attendance rate was 100%, reviewed decision-making process and commented on matters to be considered.
	Exchange opinions with management	Representative Directors of Kao (5 times); Outside Directors (2 times); Executive Officers with titles (6 times); Representative Directors of important subsidiaries (3 times); Recognition of management issues and future governance were shared through frank exchanges of opinions.
Effectiveness of the Group governance	Conduct on-site audits and interviews of worksites, divisions, subsidiaries and affiliates within and outside Japan (including confirmation of priority audit items such as internal control.)	114 times · Emphasized dialogue (1,136 comments from Audit & Supervisory Board members) · Confirmed improvement status at a later date after completion of action on audit findings. Shared details with Executive Officers along with excellent <i>Genba</i> initiatives.
	Attend the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members and Compensation Advisory Committee for Directors and Executive Officers	11 times
Development and operation of internal control	· Systematize and improve the effectiveness of the Kao Group's structure of Audit & Supervisory Board Members. (Kao, subsidiaries, affiliates) · Improve the effectiveness of audit activities under Group management	· Commenced a system in which members of the Office of the Audit & Supervisory Board concurrently serve as auditors of subsidiaries · All Auditors of subsidiaries and affiliates regularly exchanged opinions to identify and review risks (6 times) · Introduced effectiveness evaluation of the Audit & Supervisory Board at important subsidiaries, and provided training to improve their skills
	· Exchange opinions between the Accounting Auditor and Audit & Supervisory Board Members and report accounting audit results at Board of Directors meetings	Exchanged opinions (21 times); Reported at meetings of the Board of Directors (2 times) · Audit plan, accounting audit results, key audit items, non-assurance service management, audit quality, etc. · Held global meetings to exchange opinions with auditors within and outside Japan
Proactive disclosure	Conduct on-site audits and interviews of worksites, divisions, subsidiaries and affiliates within and outside Japan	Confirmed results of self-inspections and external audit, and also the status of development and operation of internal control systems
	· Conduct interviews with the divisions in charge of the second line of internal control · Attend or check minutes of the Internal Control Committee and each affiliate committee · Check the response status of the Compliance Hotline	Conducted quarterly or semi-annually · Self-inspections and monitoring are taking hold, and responses to issues to deal with have been handled appropriately in principle. · Timely reports are also made to Audit & Supervisory Board Members.
Proactive disclosure	Exchange information with the Department of Internal Audit which is the division responsible for internal auditing	4 times
	Evaluate the construction and operation status of the internal control system using a checklist	Generally effective
Proactive disclosure	Evaluated the Company's disclosure status by investigating external requests and disclosure status.	· Recommended the points that can be evaluated and points for improvement when exchanging opinions with Management and to related departments. Confirmed the development of the promotion system and the information disclosure status. · Proactively disclosed activities of the Audit & Supervisory Board Members

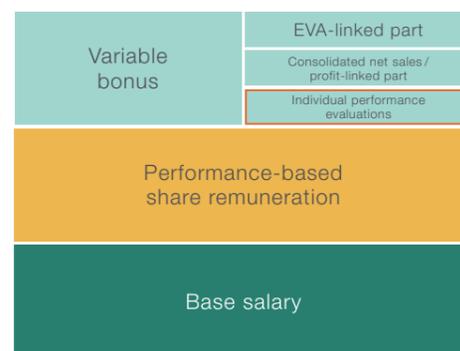
## Compensation System for Directors, Audit & Supervisory Board Members and Executive Officers

The compensation system for Directors, Audit & Supervisory Board Members and Executive Officers is aimed at: (1) securing and retaining diverse, outstanding human capital to establish and enhance our competitive advantage; (2) driving concerted initiatives to promote sustainable enhancement of corporate value; and (3) sharing interests in common with shareholders. We have introduced a performance-based share remuneration plan with the aim of boosting awareness of contributing to improvements in our corporate value over the mid- to long-term.

With respect to long-term incentives, we conduct multifaceted evaluations based on three perspectives: business growth indicators and ESG activity indicators, alongside management

indicators measured through evaluations in employee engagement surveys and other methods.

With respect to short-term incentives, we have adopted EVA to spur long-term enhancement in corporate value, and the consolidated net sales and profit indicators to promote our daily business activities and foster a sense of unity with our employees. From FY2023, the individual evaluation applied to all Directors except Outside Directors will be more flexible. The Company has also decided to introduce an evaluation confirmation process by Outside Directors and Outside Audit & Supervisory Board members to ensure objectivity and transparency.



### Short-term incentive compensation

In addition to "EVA" and "consolidated net sales/income," reflect "individual evaluation" in variable bonuses

### Long-term incentive compensation

Evaluate in three perspectives: "business growth," "ESG activities," and "top management activities"

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

	Base salary	Short-term incentive compensation (Performance-based bonus)	Long-term incentive compensation (Performance-based share incentive)
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)
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.
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)
Coefficient / Determination of payout ratio	—	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

### Evaluation Indicator and Criteria for Short-term Incentive Compensation

Evaluation indicator	Weight*1	Evaluation criteria
EVA	25–35%	Degree of target achievement
Consolidated Net Sales and Income*2	25–35%	Degree of target achievement / Degree of year-on-year improvement
Individual performance	50–30%	Degree of individual OKR achievement

\*1 The weight of 3 indicators is determined by position.

\*2 Gross profit less selling and general and administrative expenses

### Evaluation Indicator and Criteria for Long-term Incentive Compensation

Evaluation indicator	Weight	Evaluation criteria
Business growth	40%	Business growth rate of net sales, profit, etc.
ESG activities	40%	Evaluation by external indicators, and extent of achievement of internal goals (such as the Kirei Lifestyle Plan), etc.
Top management activities	20%	Evaluation of management activities by Kao employees, etc.

### Method of Provision of Long-term Incentive Compensation

Type	Composition ratio indicator	Method
Fixed part	30%	Deliver a set number of shares, etc. each year.
Variable part	70%	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.

### Compensation Structure for Directors



\*1 In the case of the Representative Director, President and Chief Executive Officer.

\*2 In the case where the variable component coefficient and the payout ratio are both 100%.

### Compensation Paid to Directors in FY2022

Classification	Classification / number of persons / aggregate amount of remuneration		Amount of remuneration by type (Millions of yen)			
	Number of persons (persons)	Aggregate amount of remuneration (Millions of yen)	Base salary	Short-term incentive compensation	Long-term incentive compensation Variable part	Long-term incentive compensation Fixed part
Directors (of Outside Directors)	10 (5)	600 (75)	406 (75)	48 (-)	110 (-)	36 (-)
Audit & Supervisory Board Members (of Outside Audit & Supervisory Board Members)	5 (3)	110 (43)	110 (43)	- (-)	- (-)	- (-)
Total (of Outside Directors and Audit & Supervisory Board Members)	15 (8)	710 (118)	516 (118)	48 (-)	110 (-)	36 (-)

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 Mid-term Plan 2025, 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 FY2022

Name / aggregate amount of remuneration / corporate classification	Amount of remuneration by type (Millions of yen)					
	Aggregate amount of remuneration (Millions of yen)	Short-term incentive compensation	Base salary	Short-term incentive compensation	Long-term incentive compensation Variable part	Long-term incentive compensation Fixed part
Michitaka Sawada	130	Submitting company	104	0	18	8
Yoshihiro Hasebe	147	Submitting company	87	19	29	12

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

# Risk and Crisis Management

## Supporting management in an era of uncertainty

To sustainably enhance corporate value, we need to respond to increasingly diverse and complex risks in a timely and appropriate manner.

We appropriately manage all potential risks and crises with the response priorities\* within the Kao Risk and Crisis Management Policy.

\* 1. Protection of human lives 2. Environmental conservation  
3. Continuation of operations 4. Protection of assets

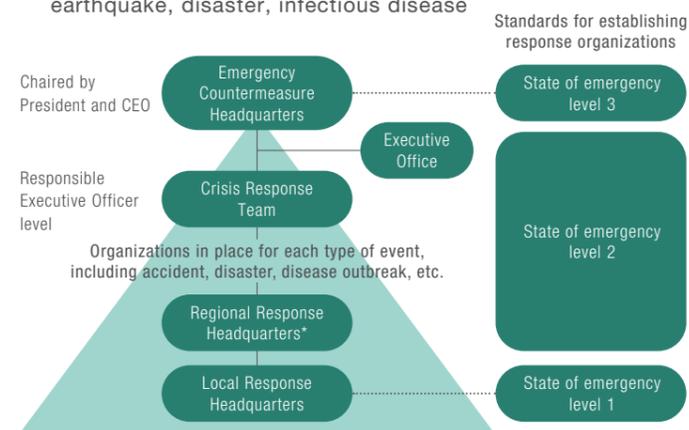
## Risk and crisis management system

We define a risk as a potential negative impact on the achievement of our management targets and business activities, and define a crisis as the materialization of such a risk. Based on these activity guidelines, our domestic divisions and affiliates identify and assess risks, and formulate and implement appropriate countermeasures. Affiliated companies outside Japan are managed through business divisions.

In the event of a crisis, we launch an Emergency Response Team according to the severity of the emergency to minimize physical damage and financial loss. The Management Board reviews these efforts, and the Board of Directors approves them. The Internal Control Committee monitors the status and confirms the effectiveness of risk and crisis management activities.

## Management framework during times of crisis

Examples of applicable events: earthquake, disaster, infectious disease



### State of emergency level

**Level 1:** Relevant divisions can respond on a local basis

**Level 2:** Impact on operations at multiple divisions and locations

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

\* Regional Response Headquarters: an organization that gathers local information, collaborates with and supports local offices, decides on regional actions, and provides instructions for these actions

## Clarifying corporate risks and strengthening responses

Our Risk and Crisis Management Committee and our Management Board have selected 15 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. We use the term "corporate risks" to refer to those among our main risks that have a particularly strong impact on management and that require stronger

response. Once a year, the Management Board selects risk topics and risk owners (Executive Officers) based on an analysis of internal risk surveys and the external environment, as well as interviews with executives. Each risk owner assembles a response team and holds deliberations, and the Risk and Crisis Management Committee meets four times a year to manage their progress.

## Corporate risks and main measures

Theme	Details of risks	Main measures
Response to geopolitical risks	<ul style="list-style-type: none"> <li>· Risk to human casualties</li> <li>· Risk of temporary suspension of operations and changes in consumer purchasing due to friction between countries and regions</li> </ul>	<ul style="list-style-type: none"> <li>· Strengthen response by preparing risk scenarios, providing response systems, and monitoring political and social situations</li> <li>· Take countermeasures centered on ensuring the employee safety, securing the supply chain network, and managing reputation</li> </ul>
Pandemic response	<ul style="list-style-type: none"> <li>· Risk of health damage to employees and temporary suspension of operations due to COVID-19 variants or new viruses</li> </ul>	<ul style="list-style-type: none"> <li>· Revise guidelines and action plans for the next pandemic based on response to the COVID-19</li> </ul>
Large-scale earthquakes and other natural disasters and BCP response	<ul style="list-style-type: none"> <li>· Risk of harm to employees and damage to assets including facilities and difficulties in supplying products resulting from large-scale earthquakes and other natural disasters such as large typhoons and floods brought on by climate change</li> </ul>	<ul style="list-style-type: none"> <li>· Strengthen countermeasures at each site against natural disasters such as large typhoons and floods</li> <li>· Continuously strengthen disaster prevention education to protect employees and their families</li> <li>· Formulate BCP assuming long-term suspension of operations and enhance BCP at sites outside Japan</li> </ul>
Response to serious product quality issues	<ul style="list-style-type: none"> <li>· Risk of serious product quality issues arising that would cause the loss of social credibility</li> </ul>	<ul style="list-style-type: none"> <li>· Strengthen company-wide response in the event of critical damage arising due to product quality issues</li> <li>· Strengthen internal awareness-raising to prevent serious product quality issues from arising</li> </ul>
Response to cyberattacks and protection of personal information protection	<ul style="list-style-type: none"> <li>· Risk of leaks of confidential information or personal information due to an error or to intentional actions including cyberattacks</li> <li>· Risk of temporary suspension of business activities such as supply chain management activity</li> </ul>	<ul style="list-style-type: none"> <li>· Strengthen security measures and clarify response procedures in the event of an incident arising</li> <li>· Strengthen activities to protect trade secrets, personal information, and information security</li> </ul>
Response to reputation risks	<ul style="list-style-type: none"> <li>· Risk that causes brand value and social credibility to decline due to the spread of negative evaluations about Kao on social media</li> </ul>	<ul style="list-style-type: none"> <li>· Strengthen the emergency response system in the event of contingencies</li> <li>· Strengthen the system for monitoring social media</li> <li>· Establish a pre-check system in advertising and social media messages and continuously strengthen internal education</li> </ul>

**WEB** Please refer to Financial Report 2022 "Business Risks and Other Risks" for details of major risks and main measures. [www.kao.com/global/en/investor-relations/library/financial-report/](http://www.kao.com/global/en/investor-relations/library/financial-report/)

# Information Disclosure Based on the TCFD Recommendations

Kao views dialogue with investors and all other stakeholders to be a key activity for planetary sustainability and corporate sustainable growth. This is why we expressed our support for the TCFD in March 2019. Kao recognizes climate change as both a major risk for continued management going forward and as an opportunity for growth.



## Key Activities and Progress in FY2022

	Key activities	Progress in FY2022
Governance	<p>Kao's ESG governance structure features an organization joined by external members who supervise and advise management. Our structure also has reinforced functions for converting management decisions into innovation and initiatives that can be executed in a swift and targeted way.</p> <p>See the "ESG governance structure" section on page 88 for details.</p>	<p>We have further strengthened our ESG governance system by establishing four ESG Steering Committees to deal with decarbonization, plastic packaging, human rights and DEI and chemical stewardship.</p>
Strategy	<p>An increase in the average temperature by 4°C poses an immense impact on society. As such, we recognize the importance of making significant contributions toward the aim to keep the global rise in temperature at 1.5°C.</p> <p>We have analyzed scenarios based on a rise in temperature of 1.5°C, 2°C and 4°C. The trends for risks and opportunities are the same for 1.5°C and 2°C, but the 1.5°C scenario is faster and has a greater level of activity than the 2°C scenario.</p> <p>See the table titled "Main business risks and opportunities" on the next page for details.</p>	—
Risk management	<p>The major risks related to climate change have been included in Kao's overall risk management process and are managed as part of our corporate risks.</p> <p>See the "Risk and crisis management" section on page 99 for details.</p>	—
Metrics and targets	<p>In 2021, we established and renewed our targets for 2030 based on our policy of moving toward carbon zero by 2040 and carbon negative by 2050.</p> <ul style="list-style-type: none"> <li>· % reduction in absolute scope 1+2 CO<sub>2</sub> emissions ..... -55% (base year: 2017)<sup>*1</sup></li> <li>· % of renewable energy in electricity consumption ..... 100%<sup>*2</sup></li> <li>· % reduction in absolute full lifecycle CO<sub>2</sub> emissions ..... -22% (base year: 2017)</li> <li>· Contribution to greenhouse gas reduction<sup>*3+4</sup> ..... 10,000 thousand tons-CO<sub>2</sub></li> </ul> <p><sup>*1</sup> This has been approved by the Science Based Targets Initiative (established to encourage companies to take ambitious activity in the field of climate change) as one of the targets for the 1.5°C scenario.</p> <p><sup>*2</sup> We have become a member of RE100.</p> <p><sup>*3</sup> The seven types of greenhouse gases (GHG) agreed upon in the 17th session of the Conference of the Parties (COP 17) to the United Nations Framework Convention on Climate Change and the seventh session of the Conference of the Parties serving as the meeting of the Parties (CMP 7) to the Kyoto Protocol.</p> <p><sup>*4</sup> The amount of emission reductions in society as a whole as a result of products from the Kao Group.</p> <p>See the "Toward Carbon Negative" section on page 27 for details.</p>	<p>The amount of emission reductions in Kao's business operations as a whole was 4,565 thousand tons.</p> <ul style="list-style-type: none"> <li>· % reduction in absolute scope 1+2 CO<sub>2</sub> emissions -26% (base year: 2017)</li> <li>· % of renewable energy in electricity consumption: 48.6%</li> <li>· % reduction in absolute full lifecycle CO<sub>2</sub> emissions -6% (base year: 2017)</li> </ul>

## Main Business Risks and Opportunities

Category of risk	Area of evaluation	1.5°C / 2°C scenario (2030)	4°C scenario (2030)	Kao's response
Transitional	Introduction and/or raising of carbon tax	Higher costs incurred due to the introduction of carbon tax worldwide	Hardly any progress in introducing carbon taxes	Set targets for scope 1+2 CO <sub>2</sub> emissions according to the 1.5°C scenario
	Introduction of restrictions on plastics	Higher procurement costs due to a rise in the unit price of recycled plastic resulting from greater demand for recycled plastic	No significant increase in recycled plastic demand	Continue and bolster activities for plastics in a circular society
	Raw material price increase	Higher procurement costs due to a restriction on fossil-based raw materials	Higher procurement costs due to an increase in demand for fossil-based raw materials	Continue and bolster activities for minimizing the quantity of fossil-based raw materials being used, and revise sales prices based on the change in costs
	Preservation of biodiversity	Higher procurement costs for palm oils and pulp due to restrictions on new agricultural land development, regulations on the procurement of certified products, etc.	Higher procurement costs for palm oils and pulp due to the need for purifying water quality and contaminated soil following excessive agricultural activity and chemical fertilizers	Continue and bolster activities for minimizing the quantity of biogenic raw materials being used, and revise sales prices based on the change in costs
Physical	Changes in consumers' behavior	Demand for ethical products expands worldwide	Demand for ethical products expands among specific generations	Develop and market ethical products, and inform consumers about them
	Natural disasters	Greater damage	Immense damage	Conduct risk surveys at each site and carry out measures accordingly
	Rise in temperature	Longer period of demand for summertime products Increased risk of infection	Even longer period of demand for summertime products More increased risk of infection	Reinforce the development of summertime products Develop and launch of anti-infectious disease products

Chapter 4

# Data Section

Evaluations from external organizations  
Financial and ESG highlights

## External Evaluation

(As of March, 2023)

3 consecutive years



17 consecutive years



For 17 consecutive years, we have been announced by the U.S. think-tank Ethisphere Institute as one of the “World’s Most Ethical Companies®.” For three consecutive years, we have been selected as a triple A company in the three fields of climate change, forest, and water security by the international non-profit organization CDP. Kao has been well-received every year across the globe.

\*World's Most Ethical Companies™ and “Ethisphere” names and marks are registered trademarks of Ethisphere LLC.



## Socially Responsible Investment Indexes

(As of March, 2023)

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



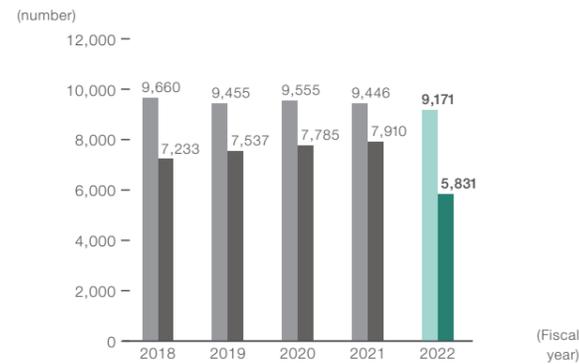
2022 CONSTITUENT MSCIジャパン ESGセレクト・リーダーズ指数

2022 CONSTITUENT MSCI日本株 女性活躍指数 (WIN)

WEB The FTSE4Good index series: [www.ftse.com/products/indices/FTSE4Good](http://www.ftse.com/products/indices/FTSE4Good)  
WEB MSCI: [www.msci.com/](http://www.msci.com/)

# ESG Highlights

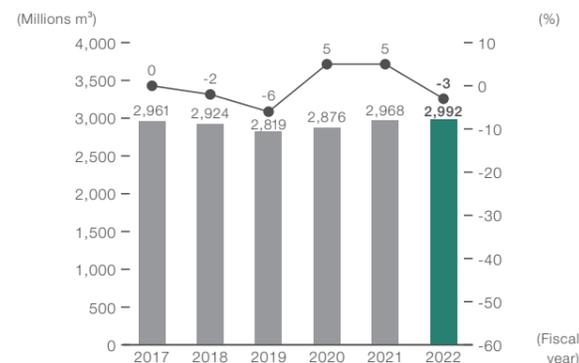
## Number of Patents (Japan / Outside Japan)\*1



■ Number of patents held outside Japan  
■ Number of patents held in Japan

\*1 In FY2022 overseas patents that have completed their roles have been abandoned to maintain an appropriate portfolio.

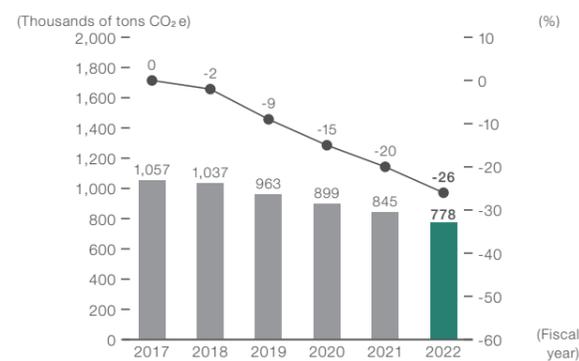
## Water Use across the Product Lifecycle\*4



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

\*4 "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.

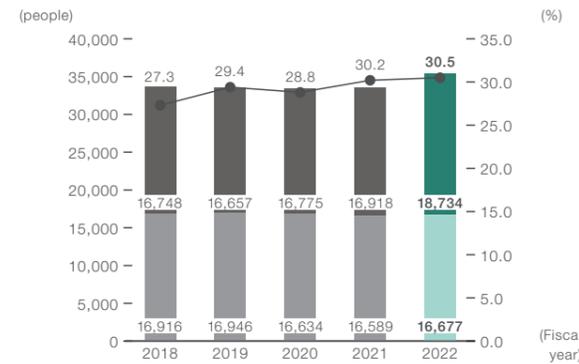
## GHG Emissions (all worksites)\*6



■ GHG emissions (left) ● Absolute emissions reduction rate (right)

\*6 Boundary: All Kao Group sites including company cars in Japan. Gases included: The seven GHGs specified by the Kyoto Protocol (only CO2 for sites outside Japan.)

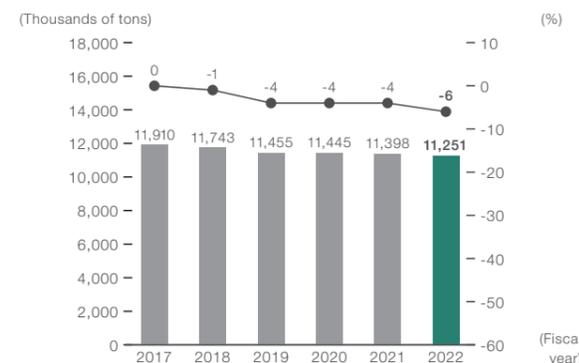
## Employee Numbers by Gender\*2 / Percentage of Female Managers\*3



■ Female employee (left) ■ Male employee (left)  
● Percentage of female managers (right)

\*2 Employees seconded from the Group to outside are excluded, but employees seconded from outside to the Group are included. From this fiscal year, full-time, indefinite-term and non-permanent employees are included.  
\*3 Employees seconded from the Group to outside are excluded.

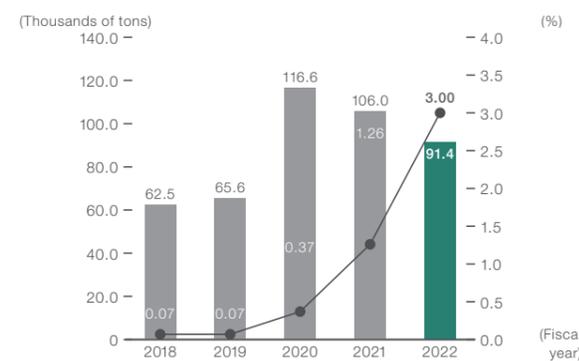
## CO2 Emissions across the Product Lifecycle\*5



■ CO2 emissions (left) ● Absolute emissions reduction rate (right)

\*5 "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.

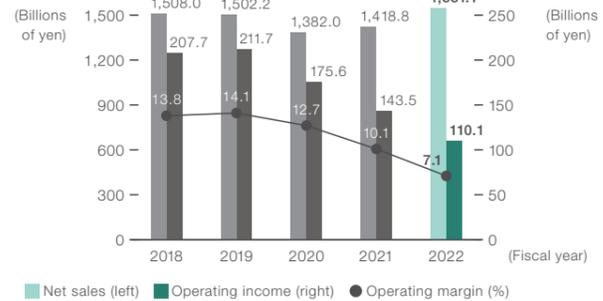
## Plastic Packaging Usage / Recycle Material Usage Ratio



■ Plastic packaging usage (left) ● Recycle material usage ratio (right)

# Financial Highlights

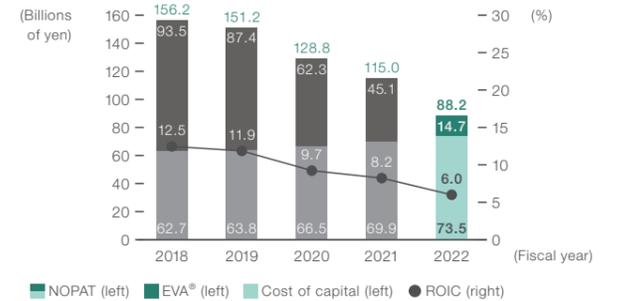
## Net Sales\*1 / Operating Income / Operating Margin



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

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

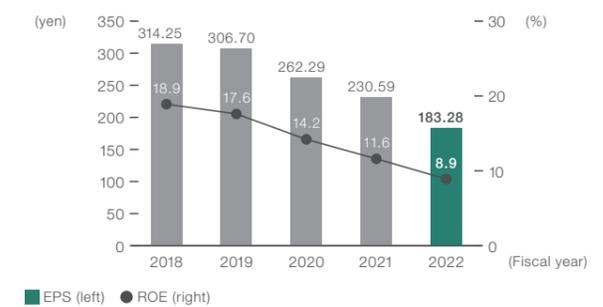
## NOPAT\*2 / EVA\*3 / ROIC\*4



■ NOPAT (left) ■ EVA (left) ■ Cost of capital (left) ● ROIC (right)

\*2 Net operating income after tax (sum of EVA and cost of capital)  
\*3 EVA is a registered trademark of Stern Stewart & Co.  
\*4 Return on invested capital

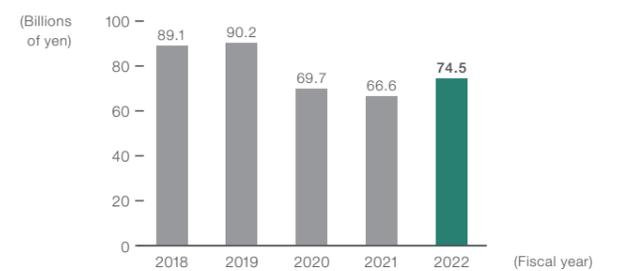
## ROE\*5 / EPS\*6



■ EPS (left) ● ROE (right)

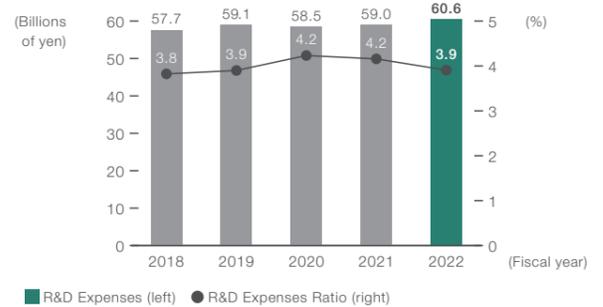
\*5 Ratio of net income to equity attributable to owners of the parent  
\*6 Basic earnings per share

## Trend in Capital Investments\*7



\*7 Excludes right-of-use assets from the fiscal year ended December 31, 2019.

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



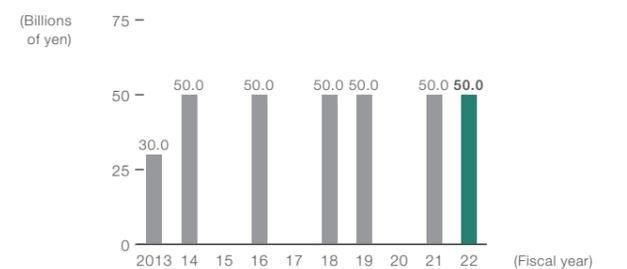
■ R&D Expenses (left) ● R&D Expenses Ratio (right)

## Net Income Attributable to Owners of the Parent / Shareholder Returns\*8



■ Share repurchases (left) ■ Total dividend amount (left)  
● Net income attributable to owners of the parent (right)

## Status of Share Repurchases\*8



\*8 Excludes repurchase of shares of less than one trading unit and shares acquired through the Board Incentive Plan Trust ("BIP Trust").

## Historical Financial Data

IFRS (Millions of yen)

	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021	Dec. 2022
<b>For the year:</b>							
Economic Value Added (EVA <sup>®</sup> )	73,357	90,394	93,530	87,403	62,265	45,127	14,669
Net sales	1,457,610	1,489,421	1,508,007	1,502,241	1,381,997	1,418,768	1,551,059
Operating income	185,571	204,791	207,703	211,723	175,563	143,510	110,071
(% of sales)	12.7	13.7	13.8	14.1	12.7	10.1	7.1
Income before income taxes	183,430	204,290	207,251	210,645	173,971	150,002	115,848
Net income	127,889	148,607	155,331	150,349	128,067	111,415	87,742
Net income attributable to owners of the parent	126,551	147,010	153,698	148,213	126,142	109,636	86,038
Net cash flows from operating activities	184,307	185,845	195,610	244,523	214,718	175,524	130,905
Net cash flows from investing activities	(88,639)	(96,146)	(157,895)	(94,266)	(61,941)	(67,232)	(74,911)
Free cash flow	95,668	89,699	37,715	150,257	152,777	108,292	55,994
Net cash flows from financing activities	(95,043)	(53,244)	(108,579)	(126,166)	(87,065)	(141,573)	(139,311)
Capital expenditures	89,900	79,355	89,097	113,387	86,149	87,766	94,567
Depreciation and amortization	51,116	54,508	60,662	83,369	86,080	87,341	89,738
Research and development expenses	54,567	56,703	57,673	59,143	58,509	58,993	60,601
(% of sales)	3.7	3.8	3.8	3.9	4.2	4.2	3.9
Advertising	97,437	89,935	80,274	77,545	71,984	74,847	74,664
(% of sales)	6.7	6.0	5.3	5.2	5.2	5.3	4.8
<b>At year end:</b>							
Total assets	1,338,309	1,427,375	1,460,986	1,653,919	1,665,616	1,704,007	1,726,350
Equity attributable to owners of the parent	679,842	806,381	822,360	857,695	923,687	965,137	972,061
Ratio of equity attributable to owners of the parent to total assets (%)	50.8	56.5	56.3	51.9	55.5	56.6	56.3
Number of employees (people)	33,195	33,560	33,664	33,603	33,409	33,507	35,411
<b>Per share:</b>							
Basic earnings per share (EPS) (yen)	253.43	298.30	314.25	306.70	262.29	230.59	183.28
Annual cash dividends per share (yen)	94.00	110.00	120.00	130.00	140.00	144.00	148.00
Number of issued shares, including treasury shares, at the end of the year (in thousands of shares)	504,000	495,000	488,700	482,000	482,000	475,000	465,900
Share price at the end of the year (yen)	5,541	7,619	8,154	9,025	7,970	6,019	5,255
<b>Key financial ratios:</b>							
Ratio of net income to equity attributable to owners of the parent (ROE) (%)	18.6	19.8	18.9	17.6	14.2	11.6	8.9
Ratio of income before income taxes to total assets (ROA) (%)	13.8	14.8	14.4	13.5	10.5	8.9	6.8

1. EVA<sup>®</sup> is a registered trademark of Stern Stewart & Co.

2. 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.

3. Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities.

4. 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.

5. From the fiscal year ended December 31, 2022, full-time, indefinite-term, non-permanent employees are included to standardize information disclosure globally. The number of employees based on the standards used up to last fiscal year is 32,895.

6. Numbers in parentheses are negative.



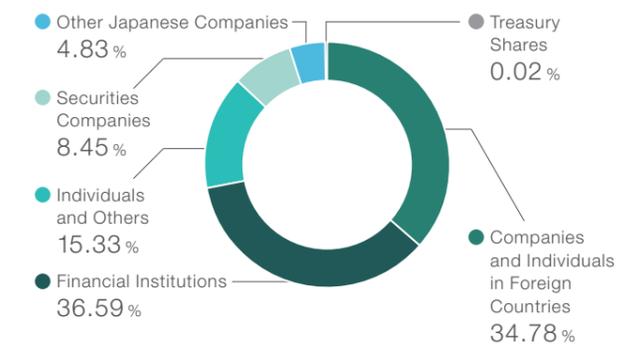
## Corporate Overview

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	8,403 (Number of employees in Kao Group consolidated companies: 35,411)
Subsidiaries	111 (of which 93 are subsidiaries outside Japan)
Associates	5 (of which 2 are associates outside Japan)

## 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	465,900,000 shares
Number of Shareholders	170,563
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)	88,817	19.07
Custody Bank of Japan, Ltd. (Trust Account)	31,656	6.80
SMBC Nikko Securities Inc.	16,845	3.62
STATE STREET BANK WEST CLIENT – TREATY 505234	8,581	1.84
THE BANK OF NEW YORK 134104	7,322	1.57
Japan Securities Finance Co., Ltd.	7,033	1.51
JPMorgan Chase & Co.	6,802	1.46
Nippon Life Insurance Company	6,691	1.44
National Mutual Insurance Federation of Agricultural Cooperatives	6,334	1.36
STATE STREET BANK AND TRUST COMPANY 505223	5,976	1.28

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.

# Kao Integrated Report 2023 Editorial Policy



The Kao Integrated Report tells our value creation story to all stakeholders. It sets out our aims for the future, the value we will provide to society, the strategies and management base we will leverage to achieve these goals, and other information about our financials and ESG activities. This fiscal year, we have explained our endeavors and progress in our transformation to achieve K25 and enhance our sustainable corporate value, giving the title of "A beginning of change" to this report.

In the process of compiling this report, we have referred to the Guidance for Collaborative Value Creation 2.0 from the Ministry of Economy, Trade and Industry, as well as the recommendations in the International Integrated Reporting Framework from the IFRS Foundation. We have also revised the content based on advice from readers.

Going forward, we will continue to improve and augment the Kao Integrated Report through dialogue with our stakeholders. The feedback we receive will be incorporated into our management, and we will strive to contribute more to society while creating corporate value.

The tree motif featured in this report expresses our commitment to live up to the next generation's dreams for the future, as expressed through the works submitted to the Kao International Environment Painting Contest for Children.

The 13th Kao International Environment Painting Contest for Children took place in 2022, 13,214 beautiful paintings and messages were sent from children around the world.



### Reporting Period

FY2022 (January 1–December 31, 2022)  
 \* Some portions contain activities before FY2021 and from FY2023 (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

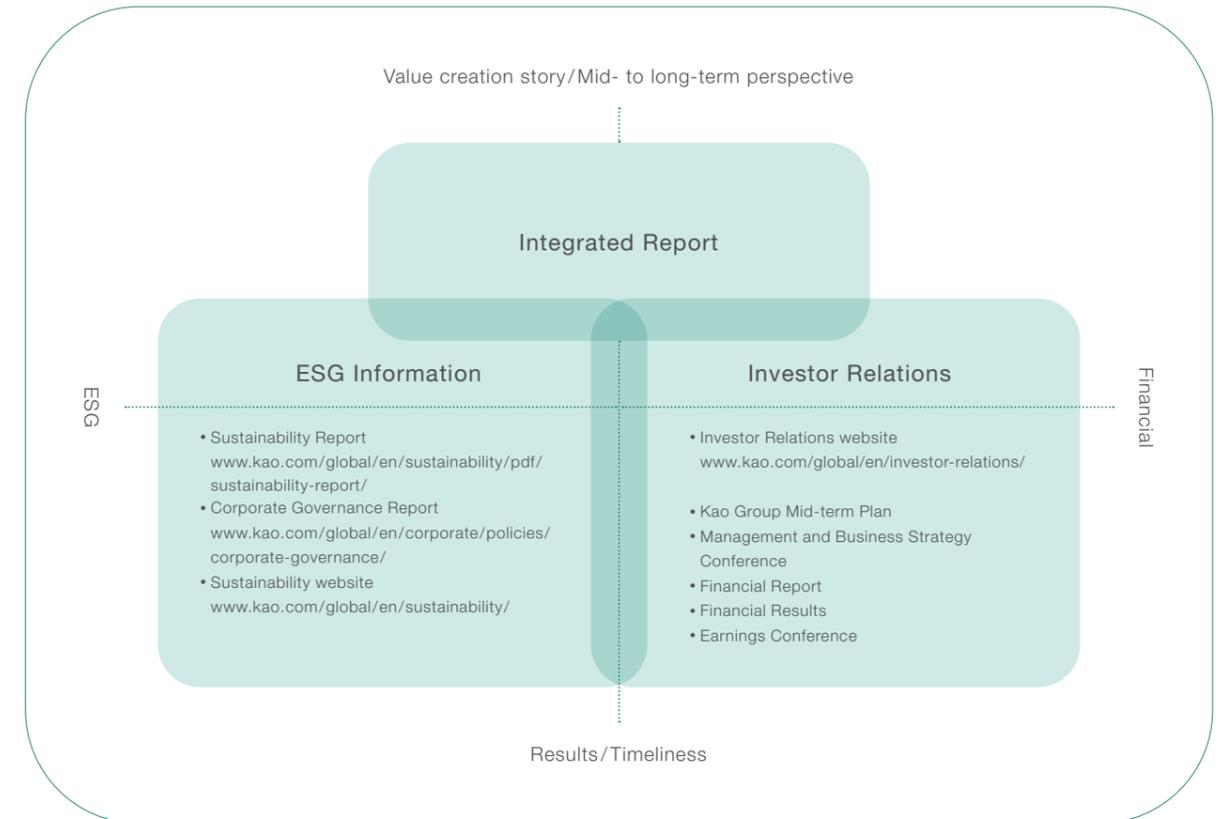
### Referenced Guidelines

Guidance for Collaborative Value Creation International Integrated Reporting (IR) Framework  
 GRI Standards

### Date published

May 26, 2023

# Information Disclosure Framework



## Digital media

### Kao Group official website

[www.kao.com/global/en/](http://www.kao.com/global/en/)

This site describes Kao's Purpose, our initiatives for sustainability and innovation and our businesses and brands, while also providing information for investors, details on careers and much more.



### Disclaimer on Forward-looking Statements

Forward-looking statements such as earnings forecasts and other projections contained in this report are based on information available at the time of publication, and on assumptions that management believes to be reasonable. These statements are not guarantees that Kao will achieve its targets. Actual results may differ materially from Kao's expectations due to various factors.