

Message by Dave Muenz 102-14



2019 was a year of action inside and outside the Kao Group. The Kirei Lifestyle Plan was launched in April as the new ESG (Environmental, Social and Governance) Strategy for Kao, capturing our ambitions to serve the needs and desires of people to live more sustainably through our creativity and innovations. We believe that by adopting an ESG lens in our *Yoki-Monozukuri*, which is our unique way to develop and offer high-quality products to the consumers, we can drive purposeful business that makes life more beautiful. Amidst growing concern about our world from both environmental and social perspectives, the world is demanding change, as we have seen in youths' cry for action across the globe.

At Kao, based on our ESG governance structure founded last year, we focused on identifying actions where Kao can make the most impact. By

leveraging the ESG Promotion Meeting, which includes leaders of many of our key businesses and functions, we worked to build management workstreams within each division so that each would have its own goals, targets and ways to track its progress, and to empower employees to own those actions. Our people are the key to making the transformation necessary to achieve the ambitions set out in the Kirei Lifestyle Plan, which led us to launch the Kirei Lifestyle Caravan, where I personally visit each division for direct dialogue about our ESG aspirations. Moreover, specific target setting, including official approval of our Science Based Target initiative (SBTi) CO₂ emission reduction targets, are helping us further our efforts in tackling climate change.

Key ESG actions continue to be identified and discussed as we speak, a portion of which was announced on

September 26 with the strong resolution of our CEO. We are on an ESG journey that we cannot complete alone—we will continue to explore collaborative opportunities that help amplify the strengths we have at Kao, to achieve the Kirei Lifestyle, for all.

Role and activities of the ESG Committee

The ESG Committee discusses and decides on the overall direction of activities related to our ESG strategy. The committee is chaired by the President and Chief Executive Officer, and its members include Senior Managing Executive and Managing Executive Officers. The committee formulates policies and strategies that are related to ESG activities, identifies ESG issues, risks, and opportunities, and examines the current state of ESG activities. The ESG External Advisory Board consists of outside experts, and gives advice and recommendations to the ESG Committee to bring external perspectives to the management of the company.

Main items deliberated on and approved by the ESG Committee in FY2019

- Establishment of ESG strategies and mid-to long-term goals
- Setting up of the ESG External Advisory Board
- Selection and approval of priority actions
- Internal communication plans
- Creation of new systems to promote ESG

Themes proposed to the ESG Committee by the ESG External Advisory Board in FY2019

- Implementation and promotion of the Kirei Lifestyle Plan within the company
- Methods adopted by Kao to support the realization of ethical consumption by consumers

Kao's support for the recommendations of the TCFD

In FY2018, Kao expressed its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In FY2019, Kao implemented a quantitative assessment of the potential impact of climate change on its business, using several different climate change scenarios. The results obtained in this assessment showed that there was a significant potential impact in relation to crude oil price data, carbon pricing, etc. Kao has already begun taking action to minimize resource usage and realize decarbonization through Reduce Innovation and Recycle Innovation, in line with the Kirei Lifestyle Plan, which embodies Kao's ESG strategy. Kao has utilized TCFD scenario analysis to evaluate the company's ability to respond and adapt to climate change, and the evaluation results will be reflected in Kao's future business strategy.

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