

To achieve our 2030 vision of becoming a company with a global presence, we are building a foundation for sustainable growth with a core focus on ESG-driven management.

Our ESG Strategy, the Kirei Lifestyle Plan released in April 2019, aims to enrich the lives of consumers, and as such is an ESG Strategy shaped from the consumer's point of view and unique to Kao.

Through ESG-driven *Yoki-Monozukuri* based on the Kirei Lifestyle Plan, our ESG Strategy will lead to realizing sustainability for society and increased corporate value.

Philosophy supporting Kao's ESG activities

The Kao Way

Since our founding, we have made it our mission to contribute to sustainability through our business activities. The Kao Way, our corporate philosophy, states, "Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective."



→ p. 5 Kao's Corporate Philosophy

Long-term management vision and the Kirei Lifestyle Plan

In 2016, we established our long-term vision to achieve by 2030, and placed ESG at the core of management to build the necessary foundation to achieve our vision. We took this step in the belief that we need to transform our group using the ESG pillars to achieve our everlasting mission set forth in the Kao Way, our corporate philosophy, while adapting to the large changes anticipated to take place in society in the coming years.

Aiming to realize our vision for 2030, we will transform our corporate stance, how we conduct manufacturing, and our perspective to put ESG in practice and through this, increase our corporate value. We will integrate an ESG perspective, starting with the initial stages of product design, into the *Yoki-Monozukuri* manufacturing that we have conducted up to now to elevate it to ESG-driven *Yoki-Monozukuri*.

We released our ESG Strategy, the Kirei Lifestyle Plan, in April 2019 and declared our commitment to conducting specific ESG activities that give consumers a leading role as well as our ambitions for the future.

The Kirei Lifestyle Plan consists of Kao's ESG Vision and Kao's ESG Commitments and Actions to achieve this vision.

Kao's ESG Vision

Kao's ESG Vision is based on the concept that our ESG activities are designed to help people around the world live more sustainably and benefit the wider society and the Earth.

Our value of "walking the right path" is presented as the foundation of our ESG activities and embodies one of the core tenets of our founder Tomiro Nagase,

"Good fortune is only given to those who work diligently and behave with integrity."

Kao's ESG Commitments and Actions

The Kirei Lifestyle Plan includes three main pillars connected to enriching the lives of people, namely "Making my everyday more beautiful," "Making thoughtful choices for society," and "Making the world healthier & cleaner." "Walking the right path" is the foundation that supports these pillars.

Kao Actions, our priority action themes, are set for each pillar as well as our 2030 Commitments, our ambitious goals to achieve by 2030.

We believe that achieving Kao's ESG Vision for society and the environment, where global-scale upheavals are anticipated, will require our resolve to transform ourselves to help bring positive transformation to society. As the importance of governance is growing, we will further strengthen the effectiveness of our governance in line with our core value of "walking the right path."

Individual mid- to long-term targets have also been set for each of the 19 Kao Actions to facilitate effective and reliable activities.

Kirei Lifestyle Plan—Kao's ESG Strategy 102-16

Kao's ESG Vision

A Kirei Lifestyle means living a beautiful life inside and out. A Kirei Lifestyle is full of compassion. Where making your own life clean and beautiful never compromises the beauty and cleanliness of the world around you.

A Kirei Lifestyle is enjoying today, with the peace of mind that those joys will be there tomorrow. It's the chance to express who you truly are, with the confidence that you are walking the right path. Even in the smallest, everyday moments. That's why, at Kao, everything we do is in service of

this lifestyle. It's why we do what is right, not what is easy. We put our innovation and imagination to the task of enriching lives by finding ways for people the world over to live the Kirei Lifestyle.



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



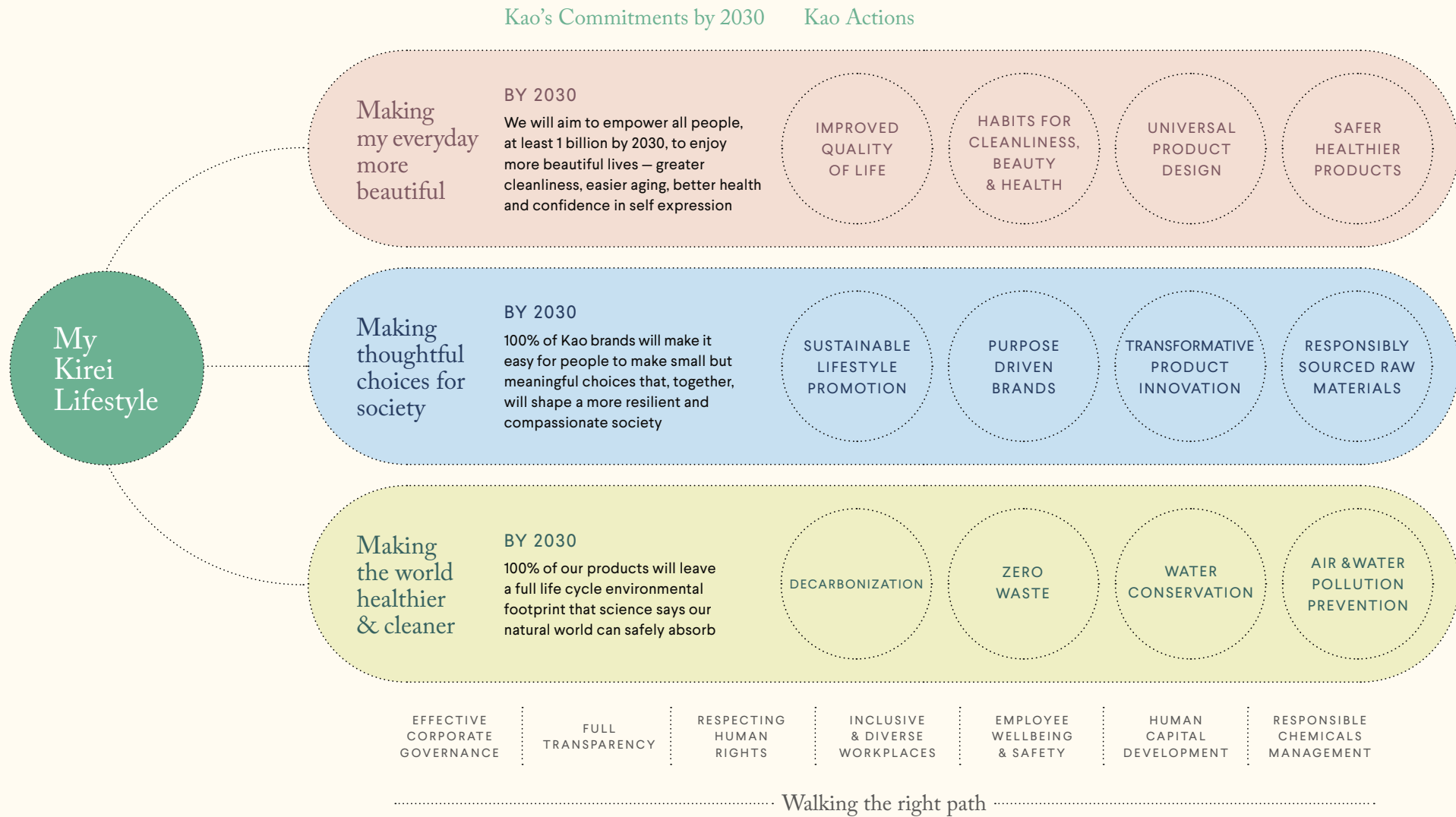
BY 2030
100% of Kao brands will make it easy for people to make small but meaningful choices that, together, will shape a more resilient and compassionate society



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

Kirei Lifestyle Plan—Kao's ESG Strategy 102-16, 102-47

Kao's ESG Commitments and Actions



Business growth through the realization of the Kirei Lifestyle

The objective of our ESG actions and achieving the Kirei Lifestyle through them is creating sustainable and profitable business growth. We believe that our ESG actions taken with the goal of enriching the lives of consumers and realizing a sustainable world will result in business growth and creation of a cycle where generated profit is returned to stakeholders, consumers and the wider society. This is why we have made the Kirei Lifestyle Plan the driver to achieve our management vision.

It is said that technological innovations are needed to address the severe social issues we are facing in the modern era and realize a sustainable world. We have strengths in *Yoki-Monozukuri* that form the framework for the innovative solutions we offer, and we believe that ESG-driven *Yoki-Monozukuri*, which combines innovative technologies grounded in our essential research, will support our sustainable growth and can have transformative impacts on people, the wider society and the Earth.

Beauty and Health, expand their boundaries and further enlarge our business fields based on the Kirei Lifestyle Plan, thereby amplifying our transformative impacts on society, and at the same time, achieving business growth.

The Kirei Lifestyle Plan will also contribute to increasing our corporate brand value and product brand value. The spirit of the Kirei Lifestyle Plan is also integrated into our products, campaigns, programs, communications and other activities. We believe that contributing to enriching the lives of consumers and

to society and environmental sustainability will allow us to gain the trust of consumers and a wide range of stakeholders, earn a strong reputation, and contribute to increasing our corporate brand value.

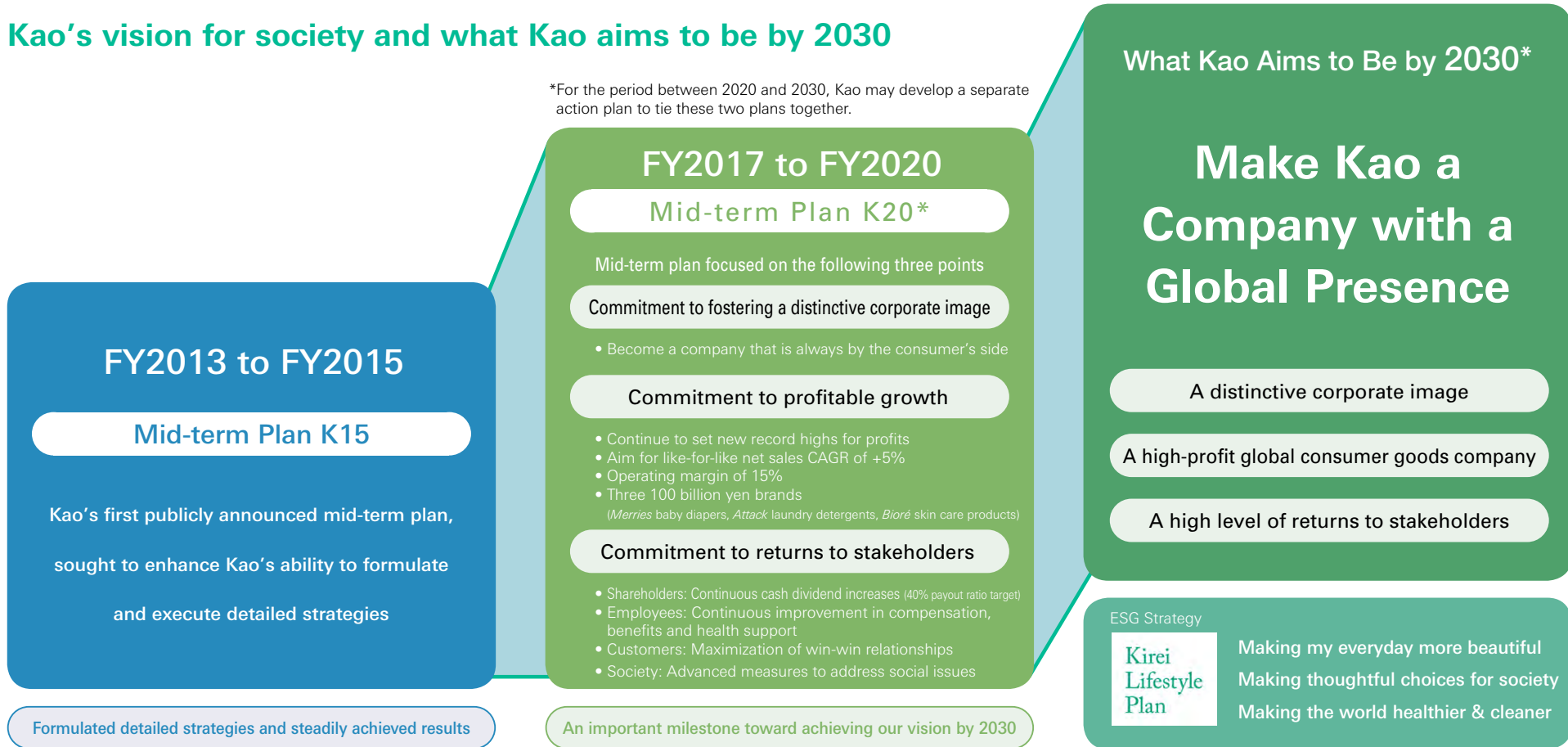
One of Kao Actions, "Purpose driven brands," strengthens brands' reason for existing as well as contributes to product brand value. We revised our brand design process in 2019 and defined "purpose" from the perspective of the Kirei Lifestyle Plan. We anticipate that this will increase the opportunities for consumers to become more aware of the purpose of Kao product brands in the future.



→ Kao Integrated Report 2020
Kao's *Yoki-Monozukuri* (Kao's value creation model)
www.kao.com/content/dam/sites/kao/
www-kao-com/global/en/investor-relations/pdf/reports-fy2020e-all.pdf#page=16

Kao's vision for society and what Kao aims to be by 2030

*For the period between 2020 and 2030, Kao may develop a separate action plan to tie these two plans together.



ESG activities to achieve the Kao Group Mid-term Plan 2020 (K20)

- Contribute to the sustainability of society in ways unique to Kao, and communicate to and get feedback from stakeholders as part of these activities.
- Build a profitable growth model by integrating ESG into business activities.
- Provide returns to stakeholders by increasing corporate value and addressing social issues.

ESG activities to achieve what we aim to be by 2030

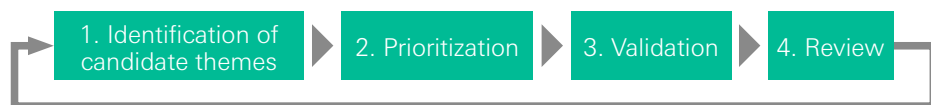
On September 26, 2019, we announced the following as the first set of actions for achieving ESG-driven *Yoki-Monozukuri* and to put the Kirei Lifestyle Plan into practice.

- Priority actions in ESG-driven *Yoki-Monozukuri*
 - Actions toward a society with circularity of plastics: Innovation in Reduction: Innovation in Recycling
 - Actions contributing to improved QOL, etc.: Social innovations
 - Offer new brands that epitomize the Kirei Lifestyle
- Based on the Kirei Lifestyle, deepening our three existing business fields of cleanliness, beauty and health, and expanding the boundaries of these three fields to lead to business field expansion

Selection process for the Kao Actions as material themes

Kao selected the 19 Kao Actions in the Kao ESG Commitments and Actions through the following four steps.

Selection process



Selection of Kao Actions implemented in 2018

1. Identification of candidate themes

1.1 Making a list of candidate themes

We used the following to help identify candidate themes:

- ISO26000
- GRI Standards
- SDGs
- Evaluation items used by ESG assessment bodies
- Global mega-trends
- In-house workshops
- Materiality at other companies
- Third-party opinions

As a result of this process, 78 candidate themes (17 environmental, 37 social and 24 governance) were selected.

1.2 Top management interviews

We held interviews with eight members of top management including representative directors, directors and managing executive officers, and compiled their thoughts and requests regarding Kao's ESG Strategy.

1.3 Region-based workshops

Using a workshop format in the regions of Asia, the Americas and Europe, we identified activities that would simultaneously satisfy business needs, sustainability needs and customer and consumer needs from the viewpoint of our operational sites. We then identified elements in those activities that serve becoming a company with a global presence.

Objectives of selecting the Kao Actions

1. Targeted action in view of changing social circumstances and issues, and the changing expectations for Kao.
2. Strategic implementation of ESG activities based on Kao policy and changes in business environment and strategy.
3. Efficient investment and effective use of management resources.

2. Prioritization

Of the 78 candidate themes identified in 1.1, we asked some external stakeholders and employees to rate their priority in growing our business and increasing our corporate value.

Evaluator attributes

- External stakeholders: 32 (21 Japanese, 11 non-Japanese)
- Employees: 71 (39 Japanese, 32 non-Japanese)

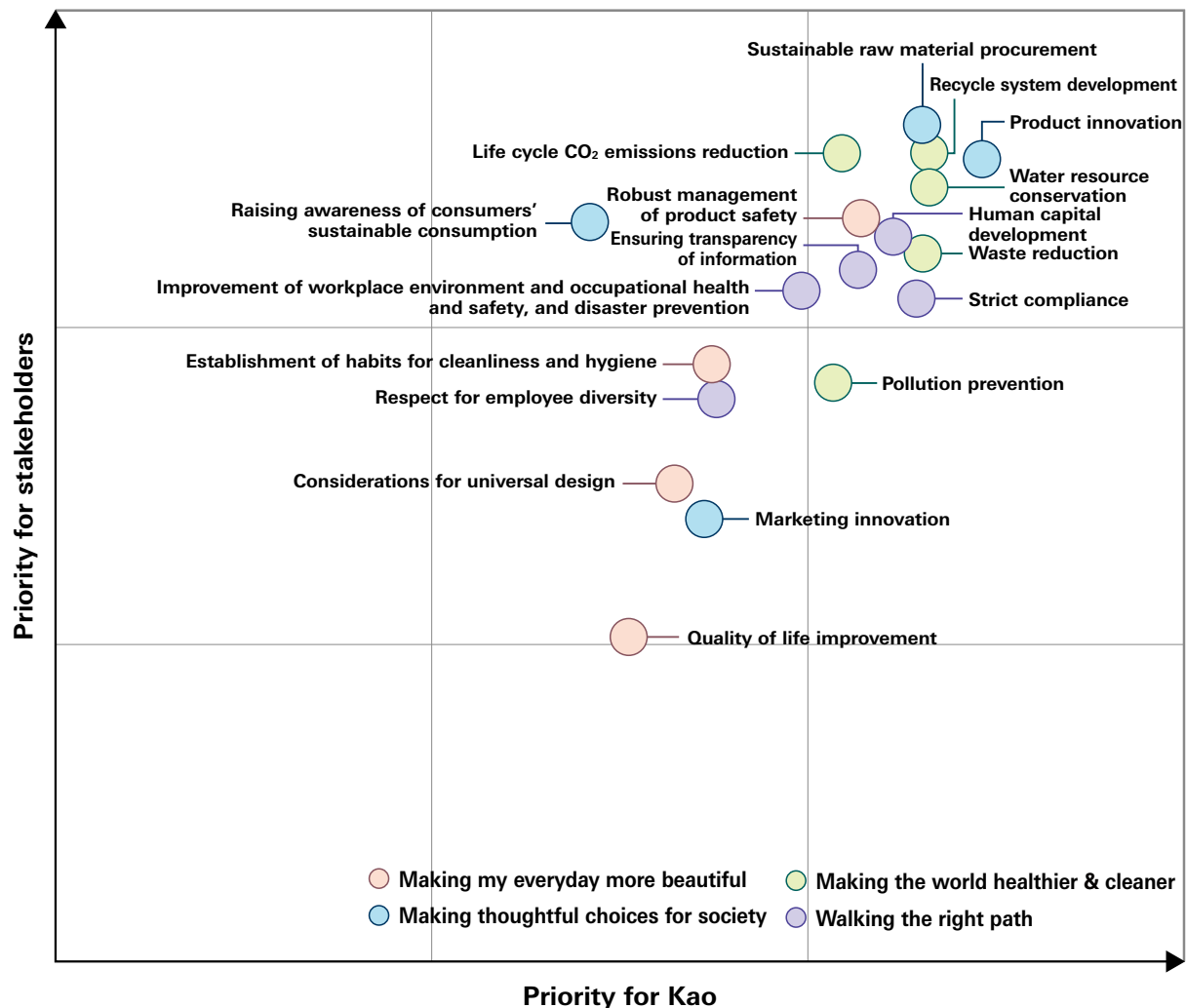
External stakeholders who provided evaluations fall under the following groups:

- Consumers/customers
- Suppliers
- Local community members
- NGO/NPO representatives
- Academics
- Industry body/same industry representatives
- Shareholders/investors

Kirei Lifestyle Plan—Kao's ESG Strategy 103-2, 103-3

We then organized the results of their evaluations in the Matrix of Materiality, which maps materiality along two axes: priority for stakeholders and priority for Kao.

Matrix of Materiality



The ESG Promotion Meeting, attended by division leaders, reviewed materiality based on the results of the evaluations and third-party opinions, and then selected the 19 Kao Actions.

Themes that were not included in the Kao Actions despite being relatively highly rated in the evaluations will be managed and implemented under a separate organization. For instance, "Disaster preparation and reconstruction assistance" was highly rated externally. These themes have been and will continue to be implemented under the Responsible Care Promotion Committee.

3. Validation

The ESG Committee reviewed the 19 Kao Actions selected in the ESG Promotion Meeting, and the Board of Directors approved them.

Based on this, divisions set their own targets and action plans to conduct ESG activities.

4. Review

The 19 Kao Actions will be periodically reviewed and revised using the selection steps 1 to 3.



→ For details concerning the structure, see p. 14, ESG promotion structure.

ESG promotion structure

The ESG promotion structure was updated in 2018 to achieve greater flexibility and resilience in implementation. Under the Board of Directors, the ESG Committee is the body that discusses and decides the direction of activities related to the ESG Strategy. Comprising outside experts, the ESG External Advisory Board provides external viewpoints that are input into our ESG activities. The ESG Promotion Meeting works to achieve the ESG Strategy, and ESG Task Force proposes activities for focus themes, while divisions implement activities.

The ESG Committee consists of members of the management team, and the ESG Promotion Meeting is attended by the heads of business divisions, regions, functional divisions and corporate divisions. These bodies are able to make swift management decisions on ESG matters, and the structure enables divisions with global operations to advance ESG activities.

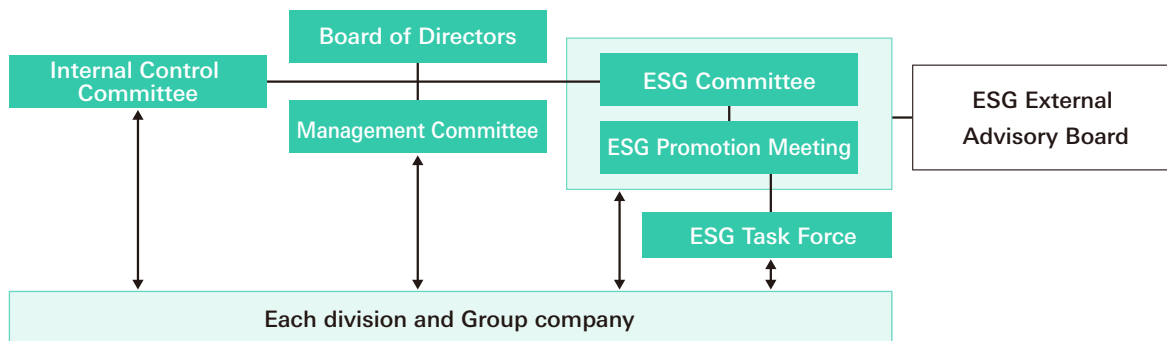
The ESG External Advisory Board is made up of external experts who provide advice and suggestions to issues raised by the ESG Committee and offer

outside viewpoints that are input into management.

While the actions taken across the ESG promotion structure basically relate to all aspects of ESG, placing a primary focus on KLP actions drives strategic ESG implementation.

Through this ESG promotion structure, we gain an understanding of our global ESG activities and make management decisions on strategy, investments and other matters based on their impact on our business and society.

ESG promotion structure



* As of December 2019.

Structure implementing the Kao Actions in the Kirei Lifestyle Plan

- The responsible divisions design the details of the respective actions, devise the mid- to long-term targets, regularly consolidate data on division progress and manage company-wide progress.
- The target divisions devise and implement their division targets and activity plan for each action.

Division promotion structure

- Each division creates its promotion structure. They devise their division targets and activity plan, and implement the PDCA cycle.
- The progress of division activities is reported to the ESG Promotion Meeting, which then gives the divisions feedback including requests to revise plans.
- Global implementation by divisions is the general rule, with support for implementation by individual Kao Group companies provided as needed.

Kirei Lifestyle Plan—Kao's ESG Strategy

102-18, 102-19, 102-20, 102-21,
102-26, 102-29, 102-31, 102-44

Roles, structure and frequency of meeting of each organization

Organization	Roles	Structure	Frequency of meeting	Main deliberated items (2019)
ESG Committee	<ul style="list-style-type: none"> Develop policy and strategy for Kao's ESG activities. Gain an understanding of the issues, risks and opportunities for sustainability of Kao and society and ESG. Deliberate and decide on matters raised in the ESG Promotion Meeting. Confirm the status of company-wide ESG activity implementation and take action accordingly. 	Committee chairperson: President & CEO; Members: Senior managing executive officers, managing executive officers, other executives	Four times/year	<ul style="list-style-type: none"> Establish the ESG Strategy and mid- to long-term targets. Establish the External Advisory Board. Select and approve focused actions. Internal communication plan. Create new systems to drive ESG.
ESG External Advisory Board	<ul style="list-style-type: none"> Give advice and recommendations to the ESG Committee from outside viewpoints. Provide information to the ESG Committee to enable development and implementation of world-class plans. Provide opportunities for collaboration and cooperation with external parties. 	Members: External influential experts <ul style="list-style-type: none"> Lisa MacCallum: Founder of Inspired Companies, specialist in business reforms Rika Sueyoshi: CEO, Ethical Association, specialist in ethical consumption 	Once/year	<ul style="list-style-type: none"> Implement the Kirei Lifestyle Plan internally. Ways Kao can support ethical consumption by consumers.
ESG Promotion Meeting	<ul style="list-style-type: none"> Promote implementation of the ESG Strategy based on the direction decided by the ESG Committee and its directives and suggestions. Confirm the status of ESG activity implementation by divisions and take action accordingly. Establish task forces as necessary to implement focus themes. 	Chair: Person responsible for the ESG Division; Members: Responsible persons at business divisions, regions, functional divisions and corporate divisions	8–12 times/year	<ul style="list-style-type: none"> Establish mid- to long-term targets for the Kirei Lifestyle Plan. Select focused action candidates. ESG-driven <i>Yoki-Monozukuri</i> system design. Confirm the progress of Kao Actions and future plans.
ESG Task Force	<ul style="list-style-type: none"> Establish for individual focus themes when a cross-functional structure is needed. Propose activities based on the detailed plan developed by the ESG Promotion Meeting. 	Members: Staff of the division relevant to the focus themes	As necessary	Set the agenda of issues and create plans to address them.

Message from the ESG External Advisory Board (Lisa MacCallum)



Lisa MacCallum

Founder, Inspired Companies

My Kao experience

My first experience with Kao was as a consumer. I was a young Australian exchange student living in Kyushu. It was 1990 and *Bioré* was a regular brand of choice for a young school girl like me. I also recognized Attack as the laundry powder in every host family's home that I was part of. So I suppose unconsciously, I've had a relationship with Kao for a very long time.

More recently, I've visited Kao's largest factory location in Wakayama. A factory that has a beautiful forest running through it, an innovation lab dedicated to restoring the planet and a floor so clean you could eat off it. I've spent time with engineers, scientists, employees and leaders—people at Kao that I have experienced as genuinely committed to doing the right thing and eagerly looking for ways to “enrich people's lives”.

Clarity of an inspired purpose is a powerful foundation to build from and not one enjoyed by many other companies. Together with a fierce commitment to humanity and the planet, Kao's clarity of purpose will only become more important, as we enter a paradigm shift in business around the world.

An era of business where old ways of working, won't work anymore.

The situation for business today

For a long time now the corporate sector has been defined by the worst of business. Profit maximization and the behaviors that come with it regrettably became normal. Behavior and leadership decisions that for a long time we could mostly get away with.

But the world has changed.

The rise of the digital revolution, social media platforms, global connectivity, human consciousness and the

speed of organizing power have made sure of it. More people than ever can dramatically and abruptly influence the success or failure of major companies today. Customers, employees and a whole range of other business stakeholders have raised expectations, they demand transparency and they can influence major decisions inside our companies overnight now.

As consumers, we trust the opinions of our friends, friends of friends and friends of friends of friends more than we do the marketing and PR of a company. In other words we trust strangers more than business today. The opinions of real people inside and outside our companies matter the most and our logos and advertisements are now only window dressing. The statistics undeniably show that even trusted companies are not trusted today.

What does this rise in power of ordinary people and lack of trust in institutions mean for the future of leadership and business? In short, it means that the most competitive position you can hold today is to *be a company with the world onside*. Proactively advocating for your success on good days, and defending you on your worst days.

Possibilities for KAO

There will always be things in business that we cannot control. As we accelerate into the 21st Century, there will only be more. On the short list of things a company can and will always be able to control is who they are

Message from the ESG External Advisory Board (Lisa MacCallum)

and how they show up. A company's culture. Its "way" of being.

A relentless commitment to humanity and the protection of the planet in the way we run our businesses today is crucial to success. It's what the world expects and anything less is no longer tolerated. This commitment is no longer the job of a single department or reduced to investment in a single project. The commitment must be part of who you are all day, every day.

No company is perfect. Issues and problems will always exist. Competing priorities and limits on investment will be ever present. A long career at one of the most distinctive sports brands in the world taught me that. The best days at Nike made me feel like anything was possible. The worst days (athletes behaving poorly, major supply chain issues, internal politics) were devastating. From all of that experience and everything else since, this is what I know for sure to be true: The best companies stand for inspired ideas, not just products. They lead with a strong set of values, heart and fearless bias for action, not just words. These companies have the conviction and courage to stand up for what they believe in, especially when others shy away.

They are the *Inspired Companies* of the 21st Century. The ones that will outcompete all others because they build trust, brand distinction and competitive advantage

in ways that leave their peer groups behind. They achieve that position because they have the world onside fueling their success. A regular day at an *Inspired Company* looks and feels like this:

You have a mission with many winners.

You execute it with passion.

You're unapologetic in your refusal to be railroaded by existing systems or corporate norms.

You're committed to doing the right thing.

You take direction from your customers, employees and traditional corporate outsiders.

They give you their trust and support in return.

All of your profits are derived from your mission, not from penalizing your customers or other stakeholders.

That's a company with the world onside.

A company we'd all be willing to get behind.

The opportunity to deliver is available to any company paying attention and willing to do the work.

What does this mean for Kao? Well, from where I sit—Kao is perfectly positioned to emerge with even more distinction. Kirei Lifestyle, in its fullest expression, is an idea the world can be inspired by. The best version of it has benefits for everyone—many winners. Your culture and promise to the world is articulated in the Kao Way. Similarly, the best version of it encompasses a shared and company-wide commitment to integrity, humanity

and protection of the planet in a very powerful way.

In Kao's first 100 years, Kao became a trusted, reliable, ethical and respected company.

The legacy for the next 100 years is to build off that foundation and become an *Inspired Company*. The fullest expression of Kirei Lifestyle, with the Kao Way, will combine to lead you powerfully toward that legacy.

I enthusiastically believe this.

But the only thing that matters is if you do.

Making my everyday more beautiful

Making thoughtful choices for society

Making the world healthier & cleaner

Walking the right path

Message from the ESG External Advisory Board (Rika Sueyoshi)



Rika Sueyoshi

CEO, Ethical Association

Since its founding more than 130 years ago to today, Kao has consistently demonstrated a presence as a leading company amid the constant transformation of social values. While maintaining this tradition, the commitments of the Kirei Lifestyle Plan to drive change focused on the future should inspire other companies in important ways.

Taking the SDGs as an example, where the international community is most focused, taking

comprehensive action and not just actions for specific targets sets an example for other companies in realizing a sustainable society, and Kao has contributed to putting “Transform Our World. No one will be left behind,” the slogan of the SDGs, into practice. Because Kao is this kind of company, we hope to see it truly embody the slogan of the Kao Group Mid-term Plan 2020 (K20), “Transforming Ourselves to Drive Change.”

To achieve this, it will need to go beyond its own perspective of “profitable growth” and take strategies and actions that are impactful on society, keeping in mind the 17 Sustainable Development Goals. Put another way, Kao will need to continue striving to minimize the negative impacts of its business on the environment and society while taking an honest look at them. At the same time, Kao will need to maximize the positive impacts it can have and serve a leadership role in leaving the world a better place for the next generation. By doing what it has done so far and taking this stance in the future, Kao can earn the trust of the next generation—Generation Z, who will help build the society of the next several decades, who are Kao’s future customers, and who are also potential employees.

To gain the support of the next generation, who takes a critical look at how companies act and who believes in ethical thinking without question, responsible improvements will be needed while disclosing information to customers with transparency upstream and downstream throughout the entire supply chain. When the Kirei Lifestyle Plan and recited

slogans do not just end at being ideals put forth by the management team but become real-life targets and strategies put into practice by a united Kao, then we think Kao’s sustainable future and profitable growth will come into view.

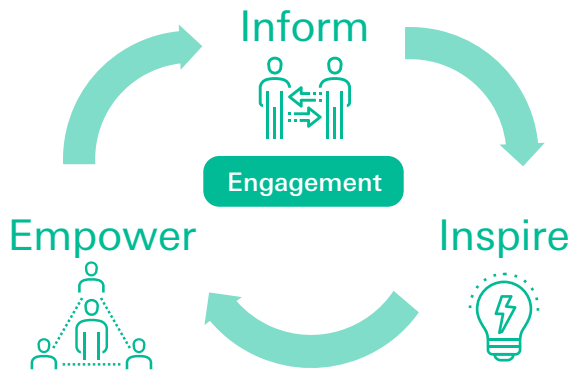
Employee engagement

Our people are the key to making the transformation of the company necessary to achieve the ambitions set out in the Kirei Lifestyle Plan. With the objective to motivate and empower Kao employees to find purposeful meaning in their work with the lens of ESG, our approach to employee engagement is to inform, inspire and empower our people to take action.

Onboarding

With the launch of the Kirei Lifestyle Plan as our ESG Strategy in April 2019, an employee engagement deck outlining why and how we created the strategy, and presenting how it is founded on our corporate philosophy the Kao Way, was shared on our internal portal. This was followed by key message on video by Dave Muenz, Senior Vice President, ESG, Global, distributed globally across the Kao Group.

Three aspects of employee engagement



To create opportunities for taking action

Ensuring that our employees can be kept up to speed with the rapid changes both externally and internally is key for Kao to make long-lasting sustainable impact on society. The Kirei Lifestyle Plan Caravan was launched to create opportunities in each division to have direct dialogue with the head of the ESG Division. In an average two-hour session, employees acquired knowledge on global trends surrounding ESG, the impact and value to the business and what opportunities we can explore to make a difference to society. The initiative is planned to continue into 2020.



Kirei Lifestyle Plan Caravan (Kao Corporation Tochigi Plant, August 30, 2019)

Enhancing sensitivity to ESG

To pursue ESG-driven *Yoki-Monozukuri*, we need to nurture the sensitivity of Kao employees to the evolving values of the society and people. Launched in August 2019, we now have a global ESG newsletter published on our internal portal accessible to every employee. The content is updated on a monthly basis with global ESG trends in and beyond the industry with visuals and crisp headings that are designed to inspire and help employees to explore topics that are relevant to their individual and business setting. The facts and science behind sustainability are not easy to understand, and to help our early adopters to be engaged in this topic at a deeper level, we have conducted four-part KLP study sessions focused on Decarbonization, Zero Waste, Water Conservation, and Responsibly Sourced Materials. With participation on a voluntary-basis, each session had over 30 participants from different functions such as Corporate Communications, R&D, Sales and Corporate Strategy. The sessions helped participants gain a deeper understanding of the science, regulatory and social context to these four important themes that are part of the Kirei Lifestyle Plan.

Performance in 2019

Our 2019 performance and returns to business and society are as follows.

Beneficial effects on business

1. Business growth

Effects from eco-conscious products

The consumer business in Japan increased sales 1.8% to 899.6 billion yen, up from 883.9 billion yen. As the ratio of eco-conscious products was the same as the previous year, eco-conscious products are considered to have contributed to a certain extent to business growth. In 2019, the sales ratio of products displaying the “eco together” logo (consumer products in Japan) was 27%, lower than the 29% of the previous year. This is attributed to some refill products not displaying the “eco together” logo even though they met the “eco together” standards. Even without displaying the logo, refill products themselves communicate environmental considerations to consumers, and therefore the ratio of eco-conscious products is considered to substantively be at the same level as the previous year.

Effects from products contributing to resolving social problems

In December 2019, we launched products applying Fine Fiber Technology able to create layered, ultra-thin membranes. Starting with products to deliver a higher dimension of beauty, we are examining commercialization of products using this innovation in a wide range of fields such as health care and medical therapies to help resolve various social issues, which will contribute to business growth.



→ p. 71 Making thoughtful choices for society >
Transformative product innovation: recent major product and technology developments

2. Cost reductions

Economic effects as a result of environmental conservation measures

We received an economic benefit of 4.3 billion yen in 2019. The largest factor was reduced expenses from resource savings, which contributed 2.6 billion yen.



→ p. 132 Making the world healthier & cleaner >
Environmental accounting

3. Risk reductions

Adverse weather events in Japan and other risk factors affecting business performance arose in 2019, but we did not experience significant business losses due to the manifestation of risks arising from social issues.

4. Increased credibility

In February 2020, Kao was selected for the list of the World's Most Ethical Companies 2020® by the U.S.

think-tank Ethisphere Institute. We have been named to the list for 14 straight years since the award's inception in 2007. We are the only Japanese company, and the only manufacturer of fast-moving consumer goods and chemicals in the world, to be honored for 14 consecutive years.

This recognition reflects the fact that the spirit of integrity passed down from our founder continues to be implemented by all Kao Group members in day-to-day operations through practice of the Kao Way and the Kao Business Conduct Guidelines (BCG).

Effects on society

To realize sustainability in society, it is increasingly necessary to quantify corporate value and non-financial aspects, and these areas are being examined by companies and related organizations. In 2018, we conducted a trial evaluation and converted our social impacts into monetary equivalents. We will continue examining the various methods under development and review around the world while collecting information and performing trial calculations.



→ Study on returns to Kao's stakeholders 2017
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/databook-2017-study.pdf

Focus on global mega-trends

Kao is taking measures regarding the 19 Kao Actions set in the Kao ESG Commitments and Actions with a focus on the conditions in international society in which we operate.

Global mega-trends that we monitor (excerpts)

Digital society

The advance of the digital society influences the shaping of virtual communities and people's actions and values. Consumers are predicted to demand greater amounts of information when selecting products due to this trend. Part of "Making thoughtful choices for society" in the Kirei Lifestyle Plan is strengthening communication and marketing by increasing the amount of product information available pertaining to sustainability.

Aging society

Developed countries are already experiencing aging populations, and developing countries are also expected to have aging populations in the future. Universal design is a key solution to help people live more comfortably as they get older.

Ocean plastic pollution

The attention focused on the problem of ocean plastic pollution has grown sharply. This situation can be considered a risk for us, since we use plastics in our packaging, but by implementing the Kao Actions of "Zero waste" and "Transformative product innovation," we can contribute to society by reducing packaging and building a recycling system, leading to increased corporate value.

Climate change

Climate change has been one of the world's highest priority issues for some time and is receiving more attention with each passing year, including from the frequent occurrence of extreme weather events, stalled international cooperation and progressive moves by companies and the financial industry. Suspended operations from extreme weather events and increased costs from strengthened regulations are risks, but the Kao Action of "Decarbonization" will help reduce CO₂ emissions not only in our own operations but also in the activities of consumers and our business partners. As such, by connecting lifecycle CO₂ reductions with "Sustainable lifestyle promotion" and "Purpose driven brands," we believe that more customers and consumers will choose Kao products and that we can increase our business opportunities.

Consumer awareness and consumption behavior

In the context of the advance of the digital society and other social changes, consumer awareness and consumption behavior are undergoing major change. There is a greater degree of personalization and an ongoing shift in values from owning goods to having experiences, with consumers seeking out products and services that they can identify with.

Personalization is connected to the pursuit of

self-expression, and this is a major element making up the Kirei Lifestyle.

The experience value that many consumers have come to demand is in fact realized through "Improved quality of life." Going beyond material satisfaction, we aim to deliver emotional enrichment as well.

The trend of ethical consumption epitomizes how consumers are increasingly seeking out products they can identify with. The Millennial generation and Generation Z, who will become the main consumer groups in the coming years, show a strong inclination for ethical consumption. "Purpose driven brands" will strengthen our brands' reason for existing even more, with the aim of having consumers identify with the story behind the brand and its products.

Making my everyday more beautiful

Making thoughtful choices for society

Making the world healthier & cleaner

Walking the right path

Kirei Lifestyle Plan—Kao's ESG Strategy 102-12

Contributions to the SDGs

Looking ahead to 2030, Kao is focused on the Sustainable Development Goals (SDGs) that have been agreed upon and adopted by the international community. As indicators for realizing a sustainable society, the SDGs set forth an integrated approach for improving the economy, society and the environment. Contributions by companies are considered extremely important to achieving the SDGs.

As indicated below, we are working to address the Kao Action topics set in the Kao ESG Commitments and Actions with the aim of achieving the SDGs.

The SDGs that the 19 Kao Action topics contribute to

Prioritized actions	1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS
Making my everyday more beautiful																	
Improved quality of life			●		●							●					●
Habits for cleanliness, beauty & health			●			●											●
Universal product design										●		●					●
Safer healthier products			●									●		●			●
Making thoughtful choices for society																	
Sustainable lifestyle promotion				●							●	●					●
Purpose driven brands												●					●
Transformative product innovation								●				●	●				●
Responsibly sourced raw materials								●		●		●			●		●
Making the world healthier & cleaner																	
Decarbonization							●					●	●				●
Zero waste												●		●	●		●
Water conservation						●						●			●		●
Air & water pollution prevention			●			●						●		●			●
Walking the right path																	
Effective corporate governance								●									●
Full transparency								●				●					●
Respecting human rights					●			●		●							●
Inclusive & diverse workplaces					●			●		●							
Employee wellbeing & safety			●					●									
Human capital development			●	●	●			●		●							
Responsible chemicals management			●			●						●		●			●

Note: Partially revised as a result of revisions to the selection criteria.

Impacts on society through the value chain

Our business activities have various impacts on society through the value chain.

The table below shows the 19 Kao Actions set in the Kao ESG Commitments and Actions, our ESG strategy and their relationship to the value chain.

The items indicate areas where our impact on society is particularly large and where the expectations on us are similarly greater. These are high-priority areas for our business growth and increasing our corporate value.

Relationship between the 19 Kao Actions and the Value Chain

Prioritized actions	Material procurement	Development / Manufacturing	Distribution	Sales	Use	Disposal / Recycling
Making my everyday more beautiful						
Improved quality of life				●	●	
Habits for cleanliness, beauty & health				●	●	
Universal product design				●	●	●
Safer healthier products					●	●
Making thoughtful choices for society						
Sustainable lifestyle promotion				●	●	●
Purpose driven brands	●	●			●	●
Transformative product innovation	●	●			●	●
Responsibly sourced raw materials	●					
Making the world healthier & cleaner						
Decarbonization	●	●	●	●	●	●
Zero waste	●	●	●	●	●	●
Water conservation	●	●	●	●	●	●
Air & water pollution prevention		●			●	●
Walking the right path						
Effective corporate governance	●	●	●	●	●	●
Full transparency	●	●	●	●	●	●
Respecting human rights	●	●	●	●	●	●
Inclusive & diverse workplaces		●	●	●		
Employee wellbeing & safety		●	●	●		
Human capital development		●	●	●		
Responsible chemicals management	●	●	●	●	●	●

Kao's ESG Commitments Pillar 1: Making my everyday more beautiful

Mid- to long-term targets

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.



Kao's approach

"Making my everyday more beautiful" is one of the core concepts supporting the Kirei Lifestyle. It is a concept that has driven our business since our founding and one that we believe can be achieved by demonstrating our strengths. We will elevate the *Yoki-Monozukuri* manufacturing that we have conducted up to now with a consumer focus to ESG-driven *Yoki-Monozukuri*.

Kao Actions



Social issues and mega-trends we are aware of

Cleanliness and hygiene serve as the foundation of daily life, but not everyone around the world can access their benefits. For example, an estimated 3 billion people* are not able to properly wash their hands at home (2017). Improving the quality of life remains a challenge even if material goods are abundant. In developed countries in particular, interest is rising in addressing needs associated with an increasingly aging population and the effects of chemical substances on health. When the younger generations, who will become the main consumers in the coming years, choose products and services, they have a stronger inclination to focus on whether the products and services fit with their own values and allow them to authentically express themselves.

* The Sustainable Development Goals Report 2019, UN

Specific approach methods

- Product design and product development with new concepts.
- Consumer education and marketing activities.
- Collaboration with stakeholders.

Returns to society and business

Returns to Kao

Efforts based on providing returns to society also lead to growth for Kao at the same time.

Products that allow consumers to feel greater comfort, that contribute to safety and health, and that offer authentic self expression give consumers a sense of reassurance and trust, which increases customer loyalty. Consumers that then continue to choose Kao products as a result will lead to our business growth.

Not only offering products, but also educating consumers is key to getting habits for better cleanliness, beauty and health adopted. Educational activities provide an opportunity to increase product awareness and allow products to be selected more effectively. Communication also builds trust and enhances our reputation. As such, we believe that communication contributes to business growth.

Trust is placed in us when our products and activities reach people on an emotional level and make people feel that their everyday is more beautiful. This positive reputation then extends from our current consumers to the people in their lives. A larger number of people using Kao products contributes to our business growth, and solid trust placed in us allows us to better withstand reputational risks, which also contributes to business risk reduction.

Through our efforts to create quality products and services, we will make everyday life more beautiful for people around the world. The trust and value people place in us will help further grow our business and increase our corporate value.

Returns to society

Through our products, we directly offer individuals who make up society the following three stages of returns.

1. Pleasant, safer and healthier product use experience
Using products made with universal design considerations allows not just older consumers but all people to live each day with greater comfort. Using safer and healthier products leads to a sense of reassurance and well-being.

2. Adopting everyday habits for cleanliness, beauty & health
For example, when washing hands with a hand soap product becomes a habit that is performed at the right places and times, individuals can maintain cleanliness and hygiene, communicable diseases can be prevented and a building block for a healthy life is created.

3. Improved quality of life
Quality of life encompasses more than just everyday habits. It is a measure of living life with dignity and being authentic to oneself. QOL creates beauty not just on the outside but also on the inside, and helps people have confidence in expressing their authentic self.

Kao's ESG Commitments Pillar 2: Making thoughtful choices for society

Mid- to long-term targets

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.



Kao's approach

"My Kirei Lifestyle" is achieved when your community and the wider society encircling the people who make your everyday more beautiful are sustainable. We at Kao recognize that the choices made by not only ourselves but also our stakeholders including consumers, corporate customers, and our suppliers make a big impact. We make responsible choices throughout the product lifecycle from procurement to transportation. At the same time, by ensuring that Kao brands are meaningful choices for consumers, we will contribute to the sustainability of society.

Kao Actions

We have established brands' purpose as resolving social problems through innovation, and by globally implementing a range of related activities, we will support consumers to lead a sustainable lifestyle. We have established the following Kao Actions concerning society, and are implementing them with a comprehensive approach.



* At Kao, Purpose driven brands are brands that not only deliver on the promise of the brand to the consumer and bring profit to the company, but also brands that contribute to a higher cause, creating positive impact on a broader society and people.

Social issues and mega-trends we are aware of

Ethical consumption, where goods and services created with considerations for the environment and society are chosen and consumed, is growing. According to survey findings, 70% of so-called Generation Z, who will be the main consumers from the 2030s onward, purchase products with ethical consumption in mind, and 65% want to know from what, where and how products are made. In the digital society, this future generation will display a stronger tendency to use information in choosing products and brands.

In the area of environmental considerations, increasing the use of refill and replacement products for example can make a large contribution to resolving the recently highlighted problem of ocean plastic pollution. It is essential that we develop refill and replacement products that consumers and corporate customers will choose, expand their range of use, and educate people on the utility of refill and replacement products.

We must also make responsible choices in all types of raw materials procurement. For example, selecting palm oil that does not cause deforestation when procuring this ingredient for detergents.

Specific approach methods

- Efforts through product design and product development with new concepts.
- Awareness-raising, marketing activities and communication on the sustainability value of products and brands to consumers.
- Collaboration with stakeholders.

Returns to society and business

Returns to Kao

Efforts based on providing returns to society also lead to growth for Kao at the same time.

Giving brands and products specific purpose that is reflected in their sustainable performance and brand policy will gain the understanding and support of consumers and customers, thereby increasing trust and customer loyalty. Consumers that then continue to choose Kao products as a result will lead to our business growth. In the information age, we believe that communicating information on brand and product sustainability to consumers and customers in a variety of forms will lead to further expansion of business opportunities. Incorporating consumer and customer wishes and expectations from society into product development and manufacturing will further enhance the trust placed in us and our reputation, which connects to business growth. "Transformative product innovation" will lead to differentiated Kao products and brands, which will build value propositions unique to Kao. We will drive business growth by offering Kao products with tangible innovation globally.

"Responsibly sourced raw materials" reduces risks in the procurement process. Procurement of non-sustainable materials is more than just a problem for society; it also invites the risks of receiving corrective instructions from authorities or industry groups, suspension of production or product supply, and loss of business opportunities.

Our efforts will contribute to a sustainable society and at the same time contribute to the SDGs. We are confident that this will grow our business and increase our corporate value, which in turn will enhance our global presence.

Returns to society

Returns are provided to society through four actions in the following three areas.

1. Support for consumers and customers to choose sustainable brands and products

Daily necessities are used every day by consumers the world over, and have a large impact on society. With this in mind, creating sustainable products that are chosen by consumers provides returns to every aspect of the environment and society. We will strengthen our communication with consumers relating to our brands' purpose and products' sustainability value to facilitate consumers choosing Kao products and brands. Creating sustainable consumption patterns is key to building a sustainable society.

As standards of living rise in Asia and elsewhere around the globe, rising mass consumption is a concern. We engage directly with consumers and can therefore make contributions to transforming product choices, how products are used and disposal and recycling efforts. Responsible consumption is also an important element of the SDGs.

Business customers that use products offered by our Chemical Business also impact society, albeit to a varying degree depending on their scale, as the chemical products become part of their final products.

2. Building brand and product performance that is chosen by consumers and customers

The foundation of 1. requires building brand and

product performance that is chosen by consumers and customers. The Kao Action of "Purpose driven brands" serves as a milestone for providing returns to society. We will create excellent products with "Transformative product innovation" based on the brand's purpose. By offering "Purpose driven brands," we will encourage our customers and consumers to make small but meaningful choices that, together, make a big impact.

We have been making large investments in creating innovation unique to Kao for some time. We will continue to drive innovation that contributes to meaningful changes throughout society as a whole.

3. Responsibly sourced raw materials

Through responsible raw material procurement in the global supply chain that extends around the world, we will contribute to building a sustainable society.

Kao's ESG Commitments Pillar 3: Making the world healthier & cleaner

Mid- to long-term targets

BY 2030

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

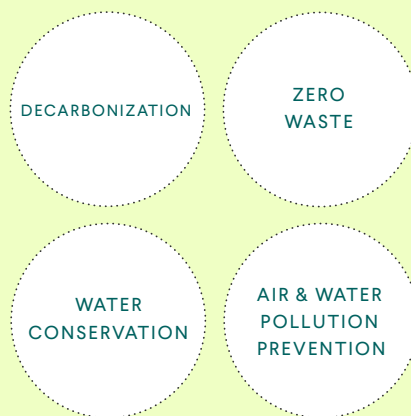


Kao's approach

"Making my everyday more beautiful" is supported by sustainable communities and the wider society. To complete the Kirei Lifestyle, the natural world that encompasses and supports communities and the wider society must also be healthier and cleaner.

Kao Actions

We have set the following Kao Actions concerning social issues related to the global environment, and are implementing them with a comprehensive approach.



Social issues and mega-trends we are aware of

Adopted in 2015, the Paris Agreement creates a global framework for reducing greenhouse gas emissions. Nevertheless, average temperatures are continuing to rise, and the damage from frequent extreme weather events is only getting worse. As various research findings have become known, the problem of ocean plastic pollution has taken on urgency. Reducing waste and building a recycling system in the wider society will require cooperation from actors in various fields. We are now at the stage where limited efforts are beginning to ramp up, and it is expected to take time before we achieve an ideal situation. Water resource conservation is imperative not only to sustain life for human beings but for all living creatures. Water scarcity is predicted due to future population increases and climate change, and is a grave issue that can lead to conflict. We need high-quality water to manufacture our products, and consumers and customers also need high-quality water when using our products. Water is inseparable from our business activities. Some success with preventing air and water pollution has been achieved in developed countries, but pollution remains a serious issue in developing countries. Preventing pollution in living spaces is also attracting attention.

Specific approach methods

- Product design and product development with new concepts.
- Consumer education and marketing activities.
- Collaboration with stakeholders.
- Approaches to governments and international organizations.

Returns to society and business

Returns to Kao

Efforts based on providing returns to society also lead to growth for Kao at the same time.

Environmental problems have a large negative impact on society. Therefore, our various actions to reduce environmental impact reduce our risks and lead to business growth.

It is also important that we identify region-based risks that may create serious environmental impact in local areas. Controlling these risks and enhancing our credibility and reputation through robust internal controls will provide expanded opportunities for consumers and customers to choose Kao products and brands. According to survey findings as well, many members of Generation Z, who will be the main consumers from the 2030s onward, especially prioritize sustainability and environmental considerations when choosing which daily necessities to purchase.

Environmental impacts are a result of fuel, water, chemical substance or other input. Efforts to reduce these inputs also lead to reduced costs.

Through these actions, we are contributing to maintaining a healthier and cleaner world. At the same time, we are gaining an understanding of how natural capital leads to business growth and improves our corporate value, and using this understanding in management decisions. Using scenario analyses based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), which Kao supports, we are quantitatively evaluating impacts on our business to facilitate making management decisions resilient to climate change and other risks.

Returns to society

1. Decarbonization

We are working to reduce CO₂ emissions in terms of the product lifecycle. The stages of use and raw material procurement account for approximately 80% of all Kao lifecycle CO₂ emissions. Therefore, by selecting raw materials with lower CO₂ emissions and offering products that require less water and less electricity during use, for example when using a washing machine, we can contribute to reducing CO₂ emissions in society.

While CO₂ emissions from production activities at our plants and from our offices do not account for a large proportion of our total emissions, we are still proactively working to reduce these emissions. We believe that actively working to reduce emissions as a leading consumer products company is not only beneficial for our own CO₂ reductions, but also increases the momentum to reduce emissions in society as a whole.

2. Zero waste

We are reducing the amount of plastic we use in our packaging, replacing the materials we use, and building collection and recycling systems. These are some of the ways we are contributing to resolving the problems of waste, its illegal dumping and landfill use, and ocean plastic pollution. The problem of ocean plastic pollution is a global-scale problem that requires the cooperation and collaboration of society as a whole. This is no easy task, but the returns will be great if we can collectively solve this problem.

3. Water conservation

The perspective of the product lifecycle is important for reducing water consumption. Kao supplies many cleaning products that require water during use, and consequently, producing water-saving products can lead to reduced water consumption throughout the world.

In addition, the use of water during production in plants also has a certain impact on the vicinity of the plant, so we are taking action to reduce water consumption during production as well.

4. Air & water pollution prevention

Kao products use chemical substances including natural compounds. We are reducing air and water pollution from chemical substances produced from manufacturing processes and product use, and minimizing the impacts on human health and the natural world. Some of the specific initiatives we are implementing are reducing gas emissions and improving water treatment technologies during manufacturing processes, and ensuring the biodegradability of cleaning ingredients.

Foundations of Kao's ESG commitment: Walking the right path

Kao's approach

"Walking the right path" is the supporting foundation for "My Kirei Lifestyle." We will create corporate governance systems and a corporate culture so that all Kao employees can walk the right path at all times. By ensuring that our business activities are conducted with sincerity and integrity, we will help people around the world lead beautiful lives. Our activities to achieve "Effective corporate governance" consist primarily of compliance activities given priority for the implementation of effective governance.

Kao Actions

We have established and are implementing the following Kao Actions for governance and our corporate culture.



Social issues and mega-trends we are aware of

The importance of compliance is growing amid an unending stream of corporate misconduct coming to light. Survey findings indicate that approximately 80% of Generation Z avoid purchasing products from companies involved in misconduct.

The importance of information disclosure based on transparency is increasingly expected in both financial and non-financial areas. For example, the publication of the recommendations from the FSB Task Force on Climate-related Financial Disclosures illustrates that specific, detailed non-financial information has become meaningful input for decisions related to investing and corporate ratings.

Human rights involve contributing factors that are not readily solvable, such as poverty, political instability and migration of the labor force. Many of these issues must still be addressed. Risks are rising due to the increasingly global nature of company activities and the growth of the supply chain.

Returns to society and business

Returns to Kao

Reliable implementation of “Effective corporate governance” and “Full transparency” provide returns to Kao, namely reduced risk, increased trust, and an enhanced reputation.

Communicating accurate information to consumers about our brands and products leads to greater reassurance and trust, and expands opportunities for consumers and customers to choose Kao brands and products.

We implement thorough *Yoki-Monozukuri* and ensure that workplaces comply with laws and ethics based on “Effective corporate governance.” Through “Full transparency,” we accurately communicate the results of these efforts to consumers and society, which then builds increased reassurance and trust, and creates greater opportunity for consumers and customers to choose Kao brands and products.

Human capital is indispensable to elevating who we are and what we do. Through the Kao Actions involving employees and workplaces, we will develop highly skilled and motivated employees, develop our global operations necessary to achieve our vision by 2030, and promote innovation, which will lead to business growth.

Based on “Responsible chemicals management,” offering consumers and customers products containing chemical substances as a company with extensive knowledge of the efficacy and risks of chemical substances, and managing chemical substances across the lifecycle based on risk, builds greater trust in us and leads to higher corporate value and business growth.

In addition, by appropriately disclosing our company activities based on “Walking the right path,” stakeholders can gain a deeper understanding of our ESG activities. This encourages cooperation on efforts for a sustainable society based on relationships of mutual trust.

Proper assessments of our ESG activities from stakeholders raise the level of our activities and drive business growth.

Returns to society

“Walking the right path” is the foundation that supports the three pillars of “Making my everyday more beautiful,” “Making thoughtful choices for society,” and “Making the world healthier & cleaner.” By “Walking the right path,” we will earnestly carry out the Kao Actions set for each of these three pillars and further build on them, which will create strong returns for the wider society.

“Effective corporate governance” helps us achieve efficient, sound, fair and highly transparent management, while “Full transparency” encourages us to communicate our situation and philosophy to society and to embrace expectations from society in what we do.

The actions involving employees and workplaces are essential to ensuring we carry out our basic activities as well as actions that will bring about social transformation. Innovative activities require the capacities of highly skilled and motivated employees.

Furthermore, “Responsible chemicals management” ensures that we can supply safe and reassuring products to society by reliably managing chemical substances responsibly as an enterprise that provides value through chemicals.

Each of the Kao Actions for “Walking the right path” is a foundation of the three pillars of the Kirei Lifestyle Plan will contribute to improving individuals’ lives, further building on our actions for society, and positively impacting the environment to realize a sustainable world.