

Realization of the Kao Corporate Philosophy 102-15, 102-16, 103-1

The Kao Way embodies our corporate philosophy and is the foundation for our corporate culture and business activities. It is the source of our unique corporate identity and forms the essence of our corporate brand. As our cornerstone, the Kao Way provides consistency to Group activities, aligning our mission, purpose, culture, growth strategy and day-to-day decisions.

Kao Group employees share the Kao Way not as a manual or set of rules but as a foundation from which we are able to determine both the meaning of our work and the concerns we share.

ESG Keyword

Kao Way (corporate philosophy)

Internal branding

#oneKao (internal communication)

Kao's creating value to address social issues

Social issues we are aware of

Since our foundation, our reason for existing has always been to enrich the lives of consumers and contribute to society through *Yoki-Monozukuri*.

(*Yoki-Monozukuri* is the word we use to communicate our strong commitment to providing products and brands of excellent value for consumer satisfaction. The “*Yoki*” in *Yoki-Monozukuri* literally means “good” or “excellent.”)

Although our purpose and corporate identity have not changed, over the years our understanding of what constitutes a “*yoki*” or excellent product, brand, process or organization has evolved. Our management team is increasingly aware that the passion and motivation of our employees are a critical intangible asset that drives our ability to deliver on our aspiration to be a company that is essential to a sustainable society. We believe that each of our employees can only be motivated to deliver their best performance when they find their work personally meaningful. Therefore, we invest in creating a corporate culture where employees feel a sense of meaning and purpose in their work, and each

individual's sense of meaning and purpose connects to a strong shared mission, vision, values and principles: the Kao Way.

Kao's creating value

We invest in our employees for two reasons. First, as research shows*, this investment in the intangible asset of employees' motivation and sense of purpose ultimately leads to better financial performance. Second, we feel that providing meaningful work for employees reflects our commitment to the “S,” or social value, emphasized in ESG management.

We see these two goals as mutually reinforcing. We believe that sustainability will require human ingenuity and technological innovation. Kao has long appreciated the insights of famed management scholar Dr. Ikujiro Nonaka of Hitotsubashi University, an expert on knowledge creation. Following Dr. Nonaka's SECI model of knowledge creation, we invest in creating opportunities for our employees to reflect together on our shared purpose, because this strengthens trust and communication in our organization. By cultivating a high-trust culture where

employees are empowered to share their ideas and access each other's experience and tacit knowledge, we foster the conditions for innovation. As a result, we are more able to achieve the technical and process innovations necessary not only to create products that delight consumers and customers, but also to help us deliver on our commitment to contribute to a sustainable society.

* Gartenberg, C., Prat, A., and Serafeim, G., 2019, “Corporate Purpose and Financial Performance,” *Organization Science*, 30 (1), pp. 1–18.

Risks related to realization of What Kao Aims to Be by 2030

By 2030, we aim to create a corporate image of a company with a global presence. We understand that to achieve this goal we must develop a unique corporate identity and earn the respect and trust of all our stakeholders.

We consider employees to be an especially important stakeholder in achieving What Kao Aims to Be by 2030. Without the trust, creativity and passion of employees who embrace our corporate philosophy and align their actions with our core values, we will not be able to earn the trust of external stakeholders

Realization of the Kao Corporate Philosophy 102-12, 102-15, 102-16, 103-1, 103-2

or achieve our goal of becoming a positive presence in the global society by 2030. Therefore, we believe that it is critical to invest in communicating our corporate identity to employees to further establish the Kao Way as a “common language” across the Kao Group.

Opportunities related to realization of What Kao Aims to Be by 2030

The Kao Way is based on the values of our founder, Tomiro Nagase, who established Kao in 1887. The Kao Way was translated into various languages in 2004 and established as a framework for developing our global corporate culture the same year. These early efforts created a strong foundation for global communication of the Kao Way. We believe that this foundation will enable us to further strengthen our corporate identity and the values-based corporate culture required to achieve What Kao Aims to Be by 2030.

Contributions to the SDGs



Policies

We believe that the best way to strengthen our unique corporate identity and help each employee feel a sense of purpose in their work is not to enforce a uniform set of values and behaviors on them but rather to create the opportunity for them to reflect on their own values and how they connect to the Kao Way. It is critical to our internal branding and corporate philosophy communication strategy that employees are empowered to make their own connections between the abstract language of the Kao Way and their day-to-day business decisions.

Following best practices in internal branding as well as the insights of Dr. Yoshiaki Takao of Tokyo Metropolitan University, we concentrate on three goals in our corporate philosophy communication activities.

1. Awareness and understanding

Employees must know what the Kao Way is and have a basic understanding of its components. To achieve this, we ensure that the Kao Way has an established presence in our organization: the Kao Way is

displayed on a poster on the wall of every conference room, posted in a prominent spot on our corporate intranet, and referenced frequently by division leaders and managers in their routine workplace communication. We also ensure new employees learn about our corporate philosophy during the hiring process and receive a basic introduction to the Kao Way soon after they join the company.

2. Emotional engagement

For our employees to find a sense of meaning in their work, they must first develop a positive impression of our corporate philosophy and identify points where their own values and aspirations overlap with the Kao Way. To achieve this, we help managers conduct workshops across the Kao Group where participants can freely discuss what the Kao Way means to them and how they can practice it in their daily work. We ask each location and division in the Kao Group to conduct such workshops once every three years as a guideline.

3. Behavior

Employees must understand what the Kao Way “looks like” in practice, in the context of the specific routines and demands of their divisions and teams. To achieve this, we concentrate on developing leadership based on the Kao Way both through standardized cross-functional training sessions implemented by Human Capital Development, as well as department-specific Kao Way workshops and other trainings implemented by each department.

Education and promotion

The Kao Way was published in 2004, and Kao Way communication activities have been conducted on an ongoing basis since then.

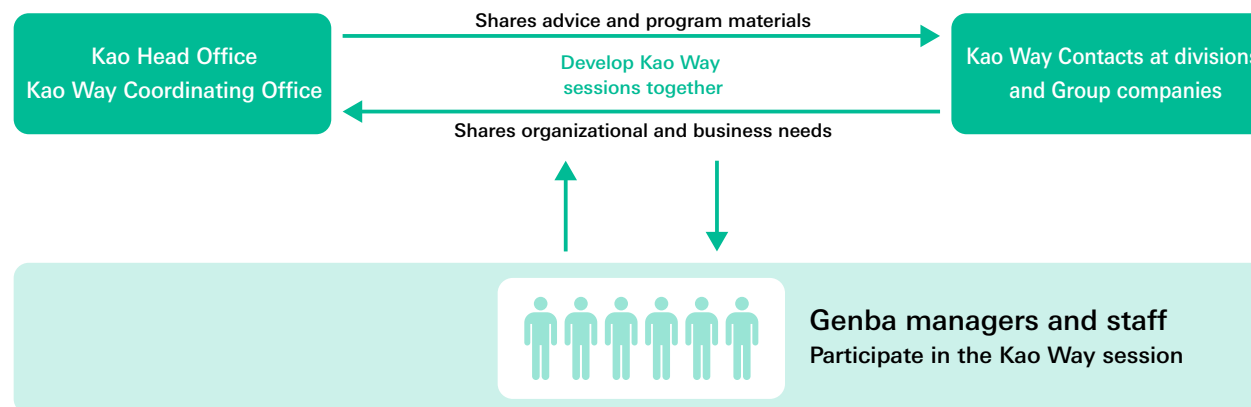
Line managers are the owners of Kao Way communication, and they have the right and obligation to design and implement Kao Way training sessions and other communication activities for their teams. The Kao Way Coordinating Office at our Head Office monitors global Kao Way communication activities and provides program materials and advice to leaders who request assistance in designing customized communications. The office also produces and distributes standardized Kao Way communication materials such as videos, pamphlets, and posters.

Framework

The Kao Way Coordinating Office supports managers within and outside Japan by maintaining a network of Kao Way contact persons at divisions and group companies. These “Kao Way contacts” share organizational and business needs with the Coordinating Office and work with it to develop programs customized for their division and company. The Coordinating Office communicates its priorities and strategy with the members of this network at an annual global meeting, and remains in frequent contact with them throughout the year.

The Kao Way Coordinating Office reports to the Senior Vice President of Corporate Communications. It presents an annual report on its activities to the Corporate Committee, and the content of this report is shared with the Board of Directors.

Framework for promoting Kao Way activities



Mid- to long-term targets and performance

Mid- to long-term targets

We intend to continue communicating the Kao Way globally in order to strengthen our unique corporate identity and develop a shared sense of purpose and strong values-based leadership across the Kao Group. By more firmly establishing our corporate philosophy as a “common language” across the Kao Group globally, we expect to strengthen employee identification with our corporate identity and, as a result, create both financial and non-financial value for society.



Anticipated benefits from achieving mid- to long-term targets

Business impacts

Realizing our goals will result in employees with a strong sense of shared purpose, which will result in more efficient use of employee time and more thorough, creative and brand-consistent use of our group assets. Although it is difficult to directly measure the return on investment of corporate culture and values communication, research shows that investing in the corporate brand to strengthen employees’ sense of meaning and purpose regarding

their work is correlated with stronger financial performance.

Social impacts

Strengthening values-based leadership and employees’ resonance with our unique corporate identity heightens our ability to practice our core value of *Yoki-Monozukuri* on a global scale, creating innovative value for consumers and at the same time contributing to the environment and becoming a positive presence in the societies we serve.

Performance in 2020

Performance

We have focused on activities to communicate the Kao Way globally for 16 years. As a result of these efforts, we have achieved a strong level of shared, group-wide understanding of the Kao Way, with manager recognition for the importance of values-based leadership.

In 2020, our three objectives (understanding, emotional engagement, and reflecting the Kao Way in one’s behavior) remained unchanged. Our operational structure and reporting lines also remained unchanged. However, due to the COVID-19 pandemic, we were not able to travel overseas or hold face-to-face workshops from March 2020 through the end of the year. We instead shifted to new methods to achieve our goals: online Kao Way sessions and digital content.

Therefore, in 2020, the Kao Way Coordinating Office set the following priorities:

1. Emphasize to all employees the importance of responding to the COVID-19 pandemic in ways that are consistent with the Kao Way

2. Pivot successfully from face-to-face communication to leveraging digital tools and content to ensure that the Kao Way remains an established presence in the organization and continues to have emotional resonance with employees
3. Support Kao Group employees as they adjust to working from home by offering online opportunities to connect with their coworkers and discuss the Kao Way

Reviews of performance

For 1:

- With the full support of the CEO and senior management, communications to employees about our response to the pandemic consistently referenced our commitment to the Kao Way.
- In collaboration with the Internal Communications Team, we created a special communications campaign called #oneKao to further emphasize to employees how Kao is responding to the COVID-19 crisis in line with the Kao Way.

For 2:

- We quickly reallocated budget and redesigned workflows to shift from face-to-face Kao Way sessions to online sessions and content.
- With the help of the Human Capital Development, we delivered Kao Way training to new employees in Japan via recorded video.
- We established new relationships with digital content production agencies to create timely videos and animations to engage employees around the world.

For 3:

- We held a series of online dialogue sessions under the above #oneKao campaign where employees could reconnect with one another and discuss our shared corporate philosophy.
- We collaborated with our overseas colleagues at Kao Industrial (Thailand) to implement an online Kao Way training session.

Our initiatives

Toward achieving our objectives

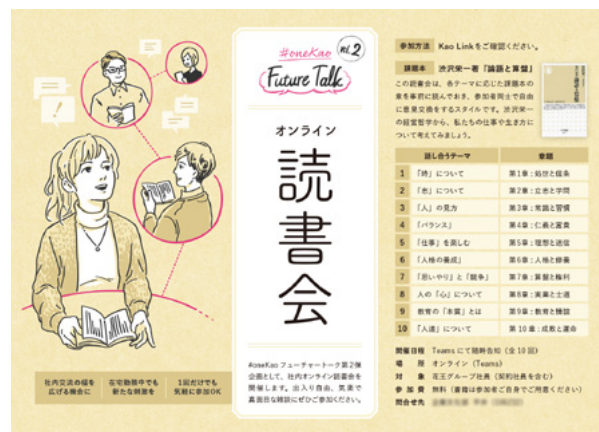
Details on our performance in 2020 are as follows:

- Page views of the #oneKao campaign on the corporate intranet: 27,467
- Participants in online #oneKao Future Talk dialogue sessions (held in Japanese): 82
- Participants from Kao Industrial (Thailand) in the online Kao Way training session: 540
- Participants in global new employee trainings: 1,678 (global excluding Japan)
- Participants in mid-career new employee trainings (Japan): 125
- Participants in new employee trainings (Japan): 532

Note: We also have two corporate museums, the Kao Museum and the Kao Eco-Lab Museum, which we invite employees to visit to further their understanding of the Kao Way. However, as these facilities were closed for much of 2020, we were unable to incorporate them into our Kao Way communication activities in 2020.



Invitation to the online #oneKao Future Talk corporate philosophy dialogue sessions



Flyer advertising an online discussion series as part of the #oneKao Future Talk campaign



Kao Way training

Scenes from the Kao Way training session facilitated jointly by Kao HQ (remote) and Kao Industrial (Thailand) (on site)

Making my everyday more beautiful

Making thoughtful choices for society

Making the world healthier & cleaner

Walking the right path