

Kao's approach

The Kao Way embodies our corporate philosophy and is the foundation of the corporate culture and business activities of the Kao Group. As our cornerstone, the Kao Way provides consistency to Group activities, from the formulation of mid- to long-term business plans to each individual business decision that we make in our day-to-day operations, and facilitates open communication across divisions and companies. Kao Group companies and members 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 value of our work and the concerns we face.

Kao's creating value to address social issues

Social issues we are aware of

Since our establishment, we at Kao have aspired to enrich the lives of people around the world and contribute to society through our core value of *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.")

We have pursued *Yoki-Monozukuri* across our entire 130 years of history, and over time our understanding of what constitutes a "yoki" product, brand, or business has evolved. We not only develop high-quality products at reasonable prices that meet the needs of consumers around the world, but also manage our business so that we are "yoki" for the environment and a positive presence in the societies we serve.

Kao's creating value

We believe that by pursuing *Yoki-Monozukuri*, we will not only be able to grow the Kao Group business while meeting the needs of consumers and customers, but also support economic growth in the

regions in which we operate. In addition, we believe that promoting technological innovation enables us to contribute to the sustainability of the natural world.

Risks associated with achieving our goals for 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 first earn the respect and trust of all our stakeholders. We consider our employees to be an especially important source of strength in achieving our goals for 2030. Without the trust, creativity, and passion of employees who embrace our corporate philosophy, we will not be able to earn the trust of external stakeholders or achieve our goal of becoming a positive presence in the global society by 2030. Therefore, we believe that it is critical to establish the Kao Way as a "common language" across the Kao Group and to develop a corporate culture that is based on trust, shared values, open communication, and a commitment to long-term thinking.

Opportunities associated with achieving our goals for 2030

The Kao Way is based on the values of Kao's founder, Tomiro Nagase, who established Kao in 1887. The Kao Way was translated into various languages in 2004 and established as a framework for global corporate culture development in 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 the values-based corporate culture required to achieve our 2030 goals.

Contributions to the SDGs



Policies

In practicing the Kao Way, it is imperative that employees make connections between the abstract language of the philosophy and their day-to-day business decisions. To support this, we run workshops at workplaces 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. These workshops strengthen the sense of ownership of the Kao Way and deepen mutual respect.

We provide a standardized level of basic training on the Kao Way. However, leaders across Kao Group divisions and companies are also encouraged to customize Kao Way sessions to align with their particular business and organizational challenges. The Kao Way Coordinating Office at Kao's Head Office (hereafter Kao Way Coordinating Office) provides program materials and advice to leaders who wish to design customized workshops.

Framework

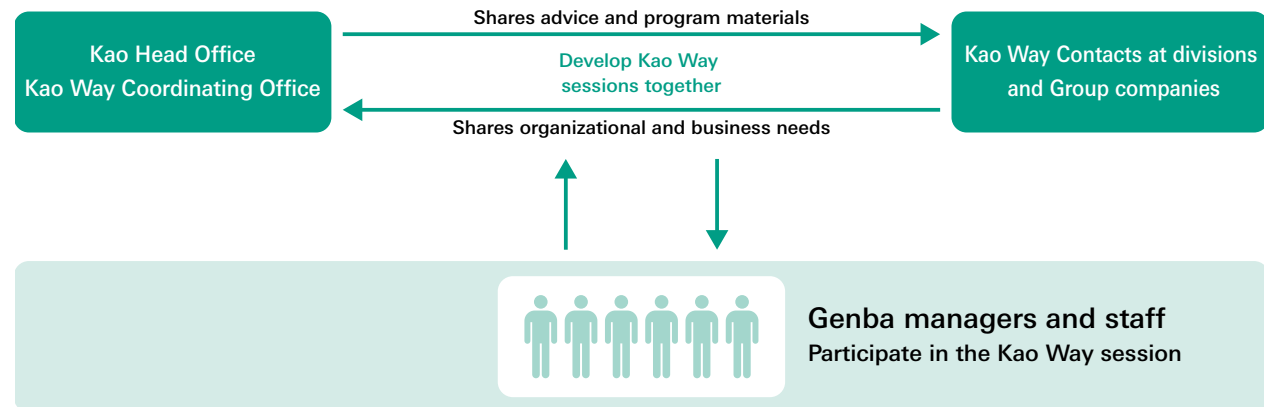
The Kao Group believes that managers play a key role in developing talent and cultivating a corporate culture based on the shared values of the Kao Way. In accordance with this approach, divisions and Group companies are positioned as the owners of Kao Way communication activities.

The Kao Way Coordinating Office supports managers inside and outside Japan by maintaining a network of Kao Way contact persons at each division and Group company. These "Kao Way Contacts" share organizational and business needs with the

Coordinating Office and work with it to develop programs customized for their division or company. The Coordinating Office communicates its priorities and strategy with the Kao Way Contacts at an annual global meeting, and remains in frequent contact with them throughout the year.

The Kao Way Coordinating Office is part of the Corporate Communications Department. It presents an annual report on its activities to the Corporate Committee, and the content of the report is shared with Kao's Board of Directors.

Framework for promoting Kao Way activities



Education and promotion

The Kao Way was published in 2004, and Kao Way communication activities have been conducted on an ongoing basis since then. Kao Way communication activities have three goals, with programs designed to address each goal.

Objective No. 1: Fostering understanding of the Kao Way

The first goal is to achieve a basic understanding across the Kao Group of the content of the Kao Way and the importance of the corporate philosophy in Kao management. Programs addressing this goal include the Kao Way Workshop, a program that has been implemented since 2006; an orientation for new members globally; an induction workshop for mid-career hires in Japan; the Kao Eco-Lab Museum (Group Wakayama Complex in Western Japan), which provides information on ecology-conscious technologies, and the Kao Museum (Group Sumida Complex in Tokyo), which communicates Kao's history.

The Kao Way Coordinating Office also maintains an intranet website that provides employees inside and outside Japan with basic information on Kao's history and corporate philosophy.

Objective No. 2: Leadership development

The second goal is leadership development, which we define as helping managers acquire a leadership style that is both based on the Kao Way and authentic to them. Managers drive Kao's business forward, and as such they must have a strong sense of ownership of

the Kao Way and be able to explain their decisions using language from the Kao Way. They must also acquire the habit of referring back to the Kao Way when faced with business challenges and difficult choices.

Programs related to this goal include the Kao Way Dialogue, a dialogue-style participatory learning program developed in 2014 and implemented in Japan and Asia.

Objective No. 3: Cultivating organizational culture

The third goal is cultivation of our organizational culture. We use the Kao Way to accelerate Kao's ability as an organization to realize global *Yoki-Monozukuri* by enhancing cross-functional communication and empowering employees around the world to develop and share their ideas for the future.

Programs related to this goal include the Kao Way Future Session, a program developed in 2017 that brings participants together from across the Kao Group regardless of age or role to imagine and co-create the future of Kao. This program is implemented regularly in Japan, and a customized version of this program was implemented in the European region in 2018. The Kao Way Coordinating Office is designing programs with a focus on promoting global *Yoki-Monozukuri*.



Kao Way Session

Mid- to long-term targets and performance

Mid- to long-term targets

We intend to continue using the Kao Way to develop values-based leadership across the Kao Group and strengthen our ability to practice our core value of *Yoki-Monozukuri* on a global scale. By establishing our corporate philosophy as a “common language” across the Kao Group globally, we expect to promote a culture of open communication and, consequently, enhance our ability to find the right balance between long-term vision and short-term results.



Expectations from achieving our mid- to long-term targets

Reduced costs and/or increased profits

Realizing our goals will result in a more efficient use of time and more thorough and creative use of assets.

Impact on the wider society

Strengthening leadership and trust-based cross-functional communication at Kao heightens our ability to practice our core value of *Yoki-Monozukuri* on a global scale. This then enhances employees' creativity and passion to create innovative value for consumers, and at the same time, allows us to make contributions to the environment and be a positive presence in the societies we serve.

Performance in 2018

Performance

In 2018, we continued to focus on our three goals of establishing a shared understanding for the Kao Way, developing leadership, and cultivating an organizational culture that practices *Yoki-Monozukuri* on a global scale. Regionally, in 2018 our focus areas were the Consumer Products Business as well as the Chemicals Business in the Americas and Europe.

Establishing understanding for the Kao Way

To promote a consistent level of understanding of the Kao Way across the Kao Group, we implemented the following activities.

Kao Museum: 2,735 employee visitors
Kao Eco-Lab Museum: 1,366 employee visitors
Kao Way Intranet Homepage (globally, including Japan): 12,312 employee visits
Global New Employee Orientation (globally, excluding Japan): 1,090 participants
Mid-Career Entrants Seminar (Japan): 111 people
Seminar for New Employees (Japan): 510 people
Kao Way Recognition Program (globally, including Japan): 529 people recognized

Leadership development

To develop leadership based on the Kao Way, we implemented the following program.

Kao Way Dialogue Program: A total of 126 participants in Indonesia, Spain, and Germany

Global *Yoki-Monozukuri*

To further strengthen our ability to achieve our core value of *Yoki-Monozukuri* on a global scale, we implemented the following programs.

Kao Way Future Session: 115 participants (Japan)
Customized Program in Americas and Europe: Approx. 800 participants

Reviews of performance

We have devoted Kao Group resources to communicating the Kao Way globally for 14 years. As a result of these efforts, we have achieved a strong level of shared understanding of the Kao Way across the Kao Group, with manager recognition for the importance of values-based leadership.

After evaluating our results in 2018 and planning for the future, the Kao Way Coordinating Office identified the following three priority issues to address.

- 1) We will strengthen the ability of Kao Group leaders to communicate mid-term business goals and financial targets in a way that links them to our corporate philosophy.
- 2) We will make further efforts to ensure that companies newly joining our Group incorporate the Kao Way while also preserving their original and distinct organizational cultures.
- 3) We will collaborate with internal and external partners to establish methods of assessing the corporate culture across the Kao Group and measuring the success of our communication efforts.