

Kao Integrated Report

2019

For the year ended
December 31, 2018



Kao

Kirei — Making Life Beautiful

The Japanese word “kirei” means beautiful or clean, not only on the outside but also on the inside. For us at Kao, Kirei is the value we want to bring to everyday life with our brands, products and services.

The little moments you enjoy, like the comfort of freshly washed sheets, the happiness you share with a smiling baby, the confidence you feel when you look in the mirror and see not only healthy skin and hair, but also your inner beauty shining through. The special pleasure that comes from using products you know have been crafted with care both for you and for the environment.

We believe these moments and the positive feelings you share with others have the power to shape the future. We want minds, lives and society to be Kirei—Making Life Beautiful.



Kao's ESG Activities

Kirei Action

In the pursuit of creating a sustainable society and sustainable business growth, Kao positions ESG (Environmental, Social, and Governance) activities as an investment to the future. While placing even more emphasis on these activities going forward, Kao will realize profitable growth.

Over the course of 130 years, Kao has been striving for the wholehearted satisfaction and enrichment of the lives of people by forming deep connections with them. To accomplish this task now and in the future, we will promote Kirei Action. "Kirei" is a Japanese word that refers not only to beauty and cleanliness but also to people's well-being and a healthy global environment. Kirei Action represents our efforts to create products wholeheartedly and engage in activities that contribute to a better future for people and the planet.

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The Kao Way

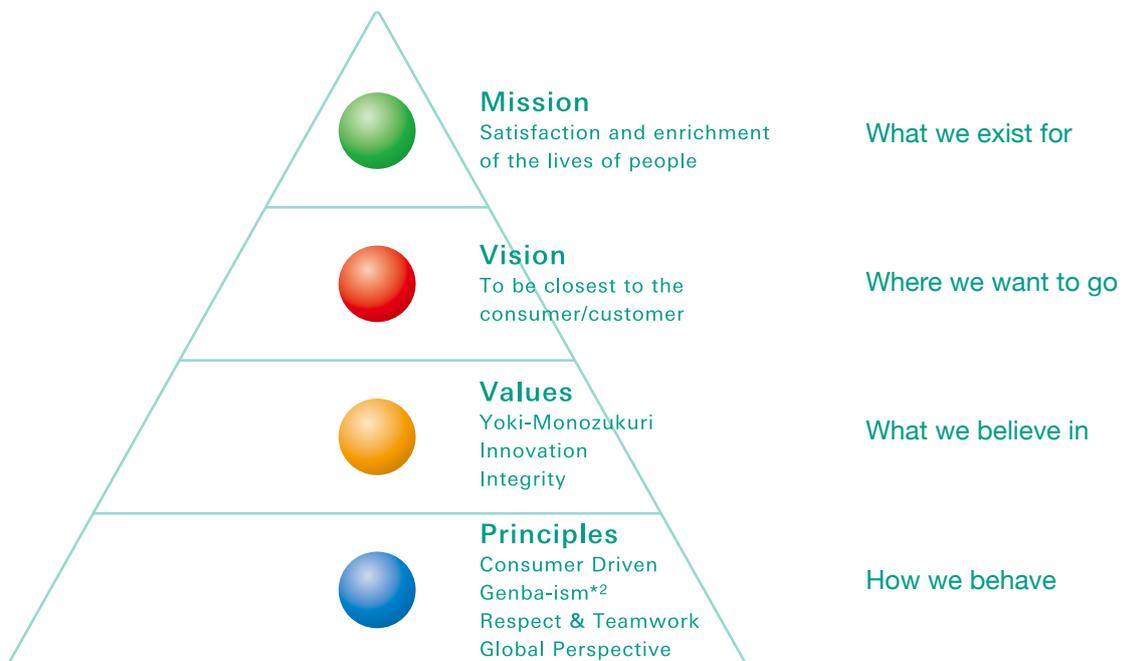
Fundamentals That Support Kao's Value Creation

The Kao Way

The source of Kao's value creation is the pursuit of *Innovation* and *Yoki-Monozukuri**¹ based on *Integrity*.



The Kao Way comprises four elements, Mission, Vision, Values and Principles, which are defined below.



*1 We define *Yoki-Monozukuri* as a "strong commitment by all members of the Kao Group to provide products and brands of excellent value for customer satisfaction."

*2 *Genba* literally means "actual spot." At Kao, *Genba-ism* defines the importance of observing things "on-site," in the actual location and environment, both internally and externally, in order to maximize our understanding the business and optimize our performance.

Our founder's final words to his family were:

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

This saying reminds people of the importance of always acting ethically in accordance with the principle of *integrity*, because by doing so you will earn the respect and trust of consumers. This attitude, embodied in the concept of Integrity, continues to underpin Kao's corporate philosophy—the Kao Way—and serve as a guiding principle for Kao employees. The source of Kao's value creation is the pursuit of *Innovation* and *Yoki-Monozukuri* based on *Integrity*. Taking this as the foundation for our operations, at Kao, we constantly put ourselves in the position of the consumer and customer as we take on our mission to strive for the wholehearted satisfaction and enrichment of people's lives and to contribute to the sustainability of the world. The Kao Way is the systematic embodiment of the vision that we have maintained ever since the company was first established, and which is carried on by everyone working at Kao.



The Founder of Kao
Tomiro Nagase

The *Yoki-Monozukuri* spirit that Kao has maintained over the years.

“We want to deliver quality products into the hands of as many consumers and customers as possible, to enrich people's lives and culture.”

The *Yoki-Monozukuri* spirit, which embodies the passionate commitment of Kao founder Tomiro Nagase, has been handed down within the company for over 130 years.

Ever since the company was founded in 1887, we have sought to contribute to the lives of consumers and customers, and to meet consumers' and customers' needs with *integrity*. Through *Yoki-Monozukuri*, we have continued to provide society with useful products.

In the future, we will continue to take account of changing times and changing lifestyles, while always maintaining a close relationship with our customers, and, through *Yoki-Monozukuri* that comes from the heart, implementing measures aimed at helping to keep both people and the planet clean and beautiful.



1890

Kao founder Tomiro Nagase launched *Kao Sekken*, an affordable Japanese-made soap with the quality to compete with imported products.

The Development of Kao's *Yoki-Monozukuri*

Over the past 130 years, Kao has worked to enrich people's lives and help consumers have fulfilling lifestyles.

1930s–

Everything starts with consumer feedback

Kao has taken a consumer-driven approach since its founding by listening to consumer feedback and maximizing ways to use it.

1934 Housework Science Laboratory established

The laboratory conducted scientific research on practical housework and offered new lifestyle suggestions.



The Science of Housework magazine



Housework workshop



Consumer Consultation Information System

1971 Kao Life Science Laboratory established

The laboratory supported consumer consultations and education as well as research into housework, with the goal of improving customer support and responsiveness.



These days, around 220,000 consumer consultations are received annually in Japan (2017)

1978 Consumer Consultation Information System introduced

This system compiled consumer feedback in a database in order to offer faster responses to customers and to facilitate new product development.

1950s–

Expanding business fields to cleanliness, beauty, and health

Kao's business activities now range broadly across beauty and health, and generate a series of long-selling brands.

1950s–60s Extending "washing" to hair, clothing, and the home

Kao developed new technologies mainly using natural fatty alcohols, which led to the creation of products that clean away various oils, dirt, and stains found in hair, on clothing, and around the home.



1951 Wonderful powder laundry detergent



1955 Kao Feather Shampoo



1960 Mypet household detergent

1970s–80s Expansion into the beauty and health fields based on research related to people

By focusing on basic research related to people, including skin and hair, Kao made great strides in beauty and health and diversified its business.



1982 Sofina cosmetics



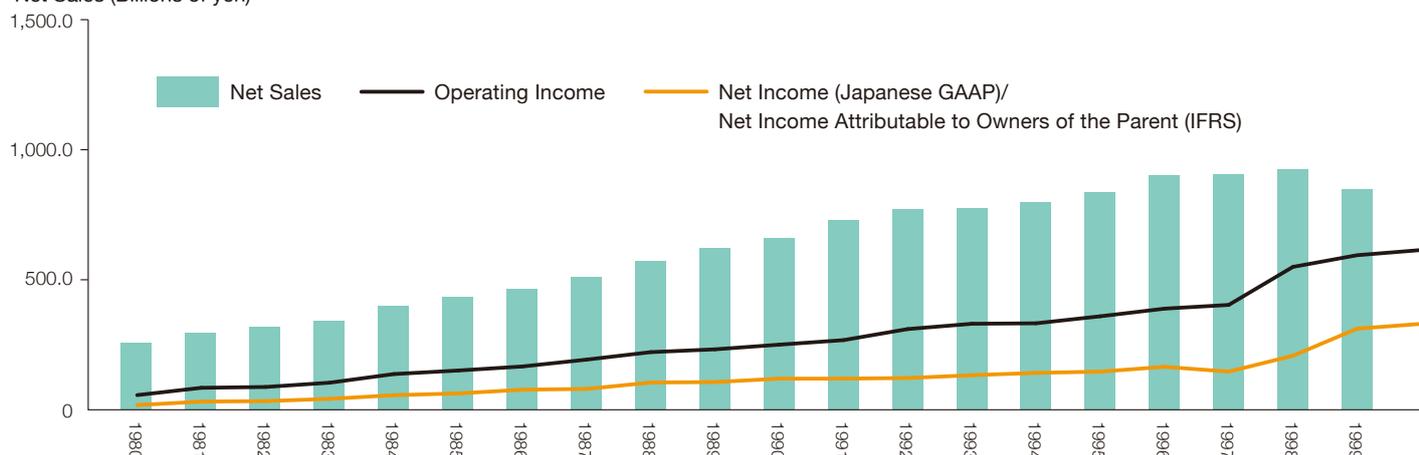
1983 Merries baby diapers



1983 Bub carbonated bath additive

Kao Group Financial Performance since 1980

Net Sales (Billions of yen)



1960s-

Together with customers around the world

Kao expanded brands that originated in Japan to other parts of Asia. In the Americas and Europe, premium beauty care brands joined the Kao Group.

1960s Expansion into Asia Product development to fit local lifestyles

The Consumer Products Business started by exporting products to Thailand. Kao Industrial (Thailand) Co., Ltd. and Taiwan-Kao Co., Ltd. are established in 1964.



Kao engages in product development to fit local lifestyles.



2014 Attack Jaz1 laundry detergent (Indonesia)

1980s Expansion into the Americas and Europe Premium beauty care brands join the Kao Group

Kao's technologies are used to pursue productive partnerships while building on the strengths and worldviews of the various brands.



1980s-

Maintaining our lifestyle into the future

Kao continues striving to reduce negative environmental impacts so that we can all enjoy enriched lives now and in the future.

1987 Concentrated laundry detergent

Kao launched Attack, a concentrated laundry detergent that offers a powerful cleaning action with just a small amount of product. This reduced the amount of paper used in packaging and the energy used during transportation.

Reduced box size by 80%
Reduced weight by 62%



1991 Developing and promoting refill packs

Kao developed refill packs and refillable products to reduce plastic consumption.

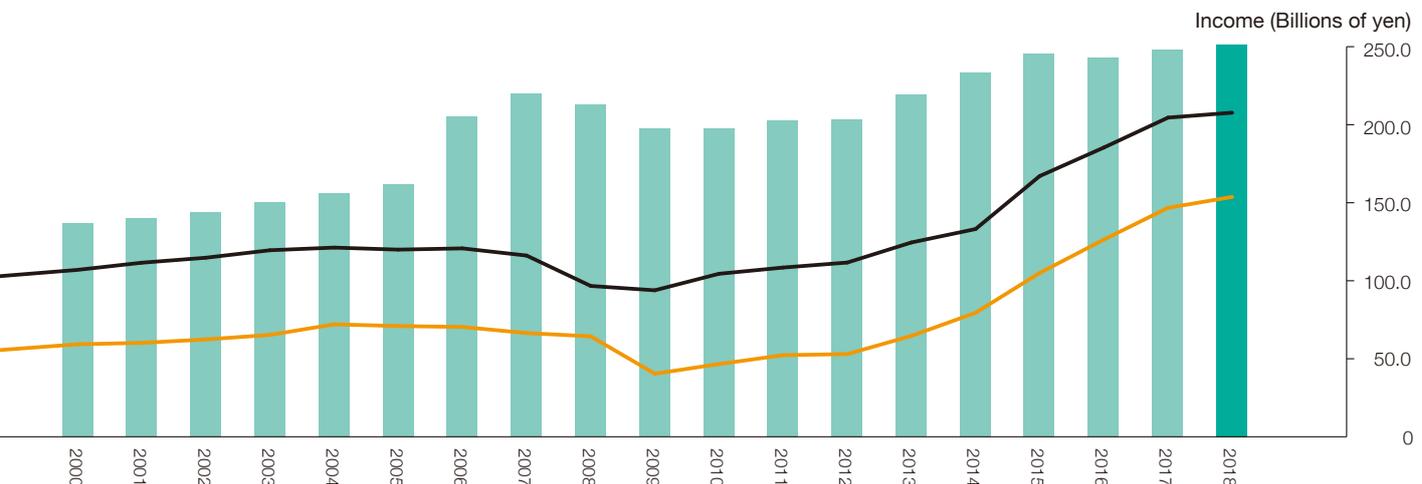


2009 Reducing laundry-related water consumption with one rinse cycle

Kao launched Attack Neo, an ultra-concentrated liquid laundry detergent that allows consumers to conserve water and electricity. Kao released the Kao Environmental Statement, presenting its policy for manufacturing with greater environmental considerations in mind.



Reducing the number of rinse cycles to just 1 rinse



Essential Research



In order to realize Kao's *Yoki-Monozukuri* vision, we are constantly making effort to develop innovative products and achieve ongoing improvement, through Essential Research.

Kao invests approximately 4% of its net sales in research and development (R&D). Nearly half of this amount is used for Fundamental Technology Research, reflecting our ongoing commitment to Essential Research. The knowledge that Kao has accumulated through our R&D has been the wellspring for its business and product growth in the past, and also helps to drive the generation of

new products and new business areas in the future. Every product comes to the end of its useful life eventually. Similarly, no business area will continue to thrive forever. The fact that Kao attaches as much importance to Fundamental Technology Research as it does to new product development reflects its commitment to constantly achieving significant new innovation and constantly developing new business.

Where Kao Excels in Essential Research

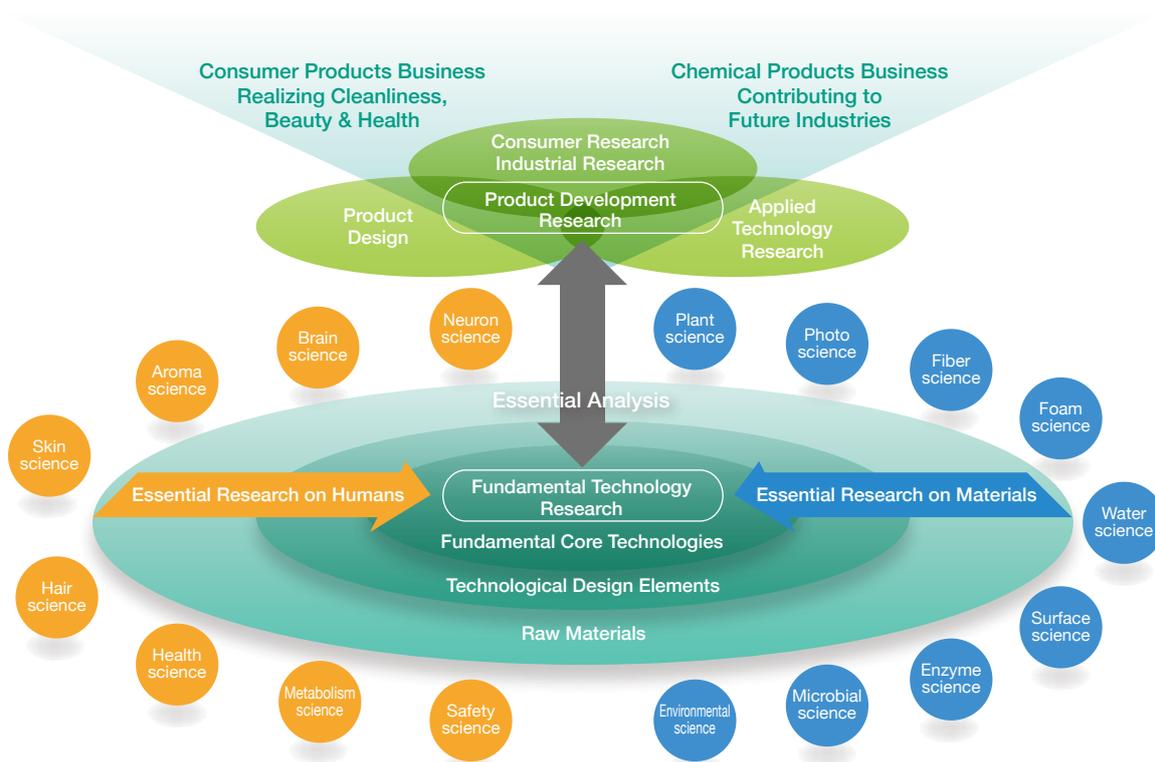
We live in an era in which, because consumers' attitudes and behavior are becoming increasingly diversified and are changing in dynamic ways, it is difficult to accurately identify their needs and preferences. Kao believes that, in order to be able to continue providing consumers with the products and services they want, it is more important than ever to strive for essentiality. By undertaking research on an ongoing basis, Kao can make steady progress towards the essentiality, while at the same time, the new discoveries that Kao makes during the research process can lead to the birth of new products. Kao defines these activities as Essential Research, and our attitude towards research has remained unchanged ever since the company was founded.

In order to further enhance the speed and level of our R&D, Kao is working actively to adopt, cutting-edge technologies.

Technology is advancing rapidly around the world, and it is now normal practice for R&D to make extensive and effective use of artificial intelligence (AI). While taking the proactive adoption



of automated, integrated research that utilizes AI effectively to realize enhanced efficiency to an even higher level, we also attach ever more importance to creative research focused around human discoveries and inventions.



Essential Research

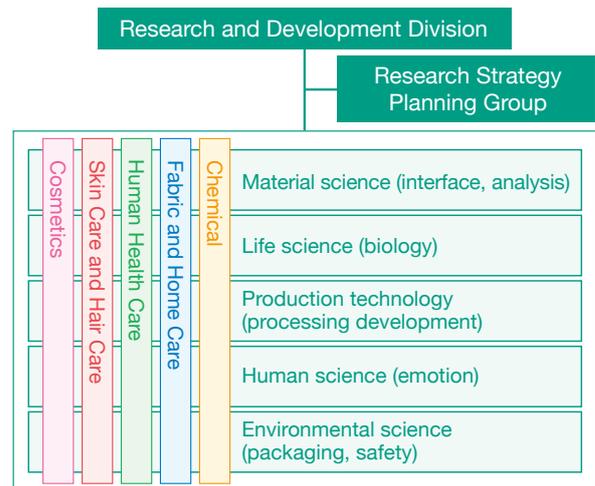
Working to Further Enhance Essential Research

Kao has adopted the following three basic policies for its R&D activities.

1. Create the seeds for new businesses
2. Bring about innovation that creates new customers needs in existing business domains
3. Share scientific technologies with society

To realize these policies, Kao has reinforced its matrix management for R&D activities, which gathers knowledge and goes beyond conventional technological domains. By putting in place an organizational structure in which individual research facilities report directly to the Research and Development Division, Kao has been able to realize faster decision-making and accelerated global growth. Matrix management makes it possible to integrate knowledge and technologies from many different fields, and the continuous linkage between our distinctive

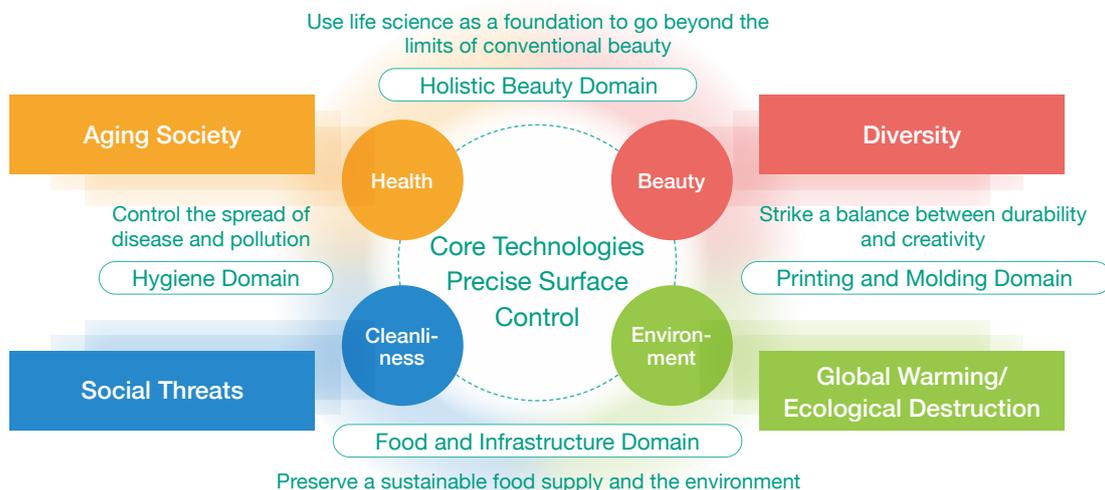
fundamental technologies and our new product development capabilities facilitates the generation of unique new product ideas that will create new value.



Mid-term Growth Strategy

Kao undertakes research in several domains that represent intersections of its existing businesses. These include the hygiene domain, which aims to control the spread of infectious diseases; the holistic beauty domain, which approaches beauty from the viewpoint of health; and the food and environmental sustainability domain, which aims to preserve a sustainable food supply and safeguard the environment. Kao is also seeking to challenge ourselves by using its R&D assets that Kao has

achieved in these areas to build new businesses that extend beyond our current business domains. These new domains are areas where our company can use its R&D assets effectively to help as many people as possible. Accordingly, Kao is advancing research to make a strong entry into these domains. By realizing technology innovation that has a positive social impact, Kao aims to implement *monozukuri* that creates world's first and world-leading technologies and products.



Kao Group Technology innovation session

In November 2018, Kao held a presentation on technology innovation that will underpin the Kao Group in the future, at which the company showcased five major new technologies that have been created through the intensification and fusion of Essential Research. In the past, when announcing the launch of new products, Kao also publicized the new technologies on which the products were based, but this presentation marked the first time that we had announced newly developed technologies prior to the products based on them.

New Technologies in Five Key Fields

- **Skin science:** Fine Fiber
- **Health science:** RNA monitoring
- **Hair science:** Created Color
- **Surface science:** Bio IOS
- **Environmental science:** Package RecyCreation

Multi-faceted Linkage and Collaboration between Industry, Government and Universities

The last few years have seen a diversification of consumers' needs, a heightening of ethical awareness, and a trend toward greater emphasis on individual personality. With the growing personalization of values, being able to offer one-to-one value offering has become vitally important. In order to respond effectively to these changes, multi-faceted linkage and collaboration with industry, government and universities, etc., is vital. Kao has

been focusing in particular on open innovation proposals, with the aim of building linkage— from multiple perspectives—in regard to technology exportation. Through these kinds of measures, Kao will be even better placed to offer value propositions that are beneficial to society, and the measures can also be seen as relevant to the ESG activities to which Kao has dedicated so much attention.

Skin science: Fine Fiber

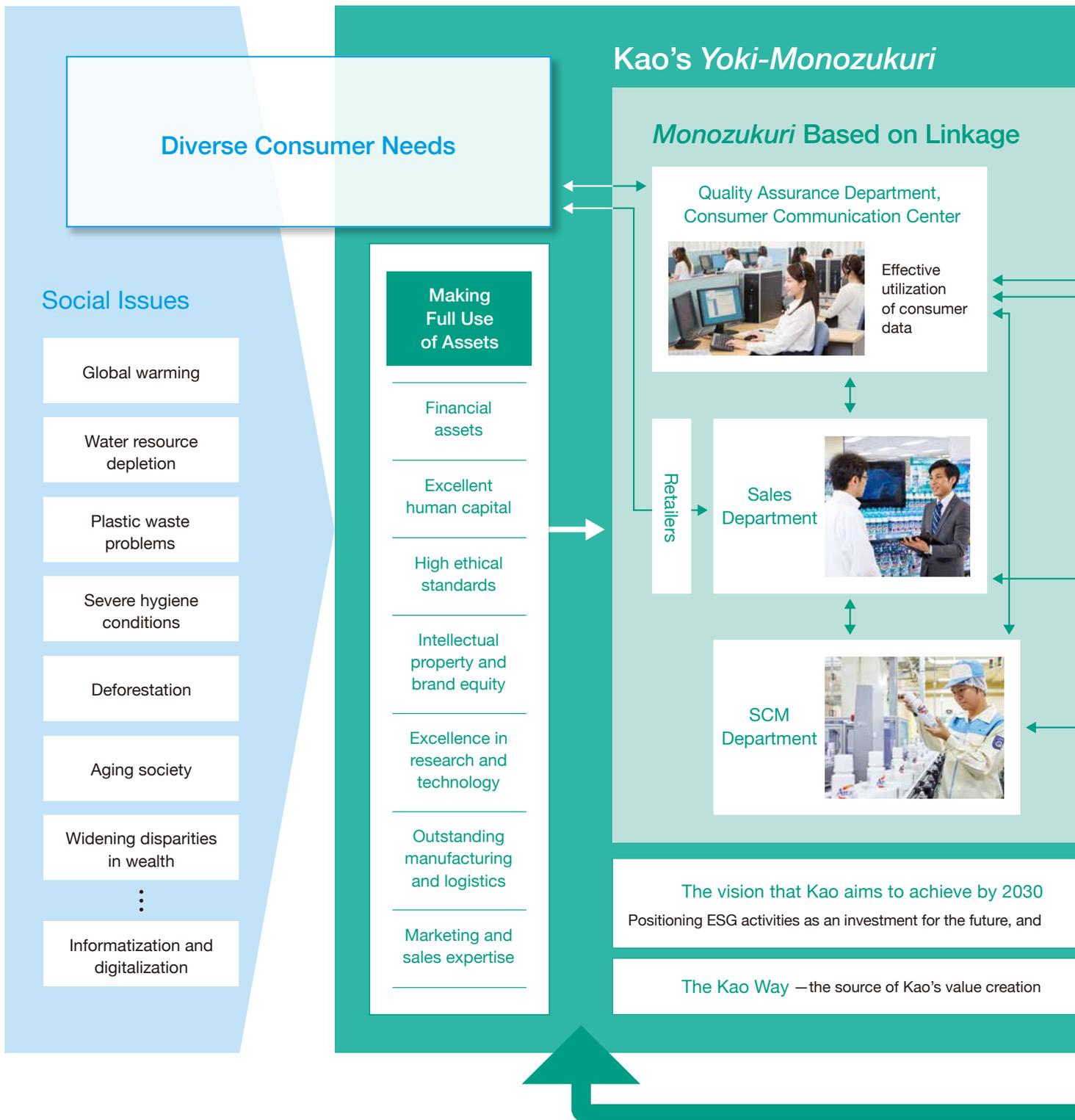
Fine fiber technology enables a layered, ultra-thin membrane made of superfine fibers with submicron diameters to form on the surface of the skin. The membrane is created by spraying the skin directly with a polymer solution developed for Cosmetics. The solution is loaded into a small, specialized applicator and discharged through a nozzle. The many layers of the solution form a membrane on the surface of the target object. The resulting film becomes thinner toward its edges, allowing it to blend naturally with the skin and rendering its boundaries unnoticeable. Additionally, because there is only a small difference in level between the membrane and the skin, it will not come off easily. With this technology, anyone can easily form a soft, smooth and natural-feeling film that fits closely on any part of the body. The film's greatest feature is its superior ability to maintain and even out Cosmetics used with it, thanks to



outstanding capillary action. At the same time, excess water vapor can escape from the spaces between the interwoven fibers. As a result, the film is able to maintain adequate moisture permeability without completely blocking the skin. By using fine fiber technology in combination with various Kao-developed Cosmetics, it is now possible to go beyond traditional concepts in cosmetic fields such as skincare and makeup. We are considering adaptations of the technology for use in the therapeutic field.

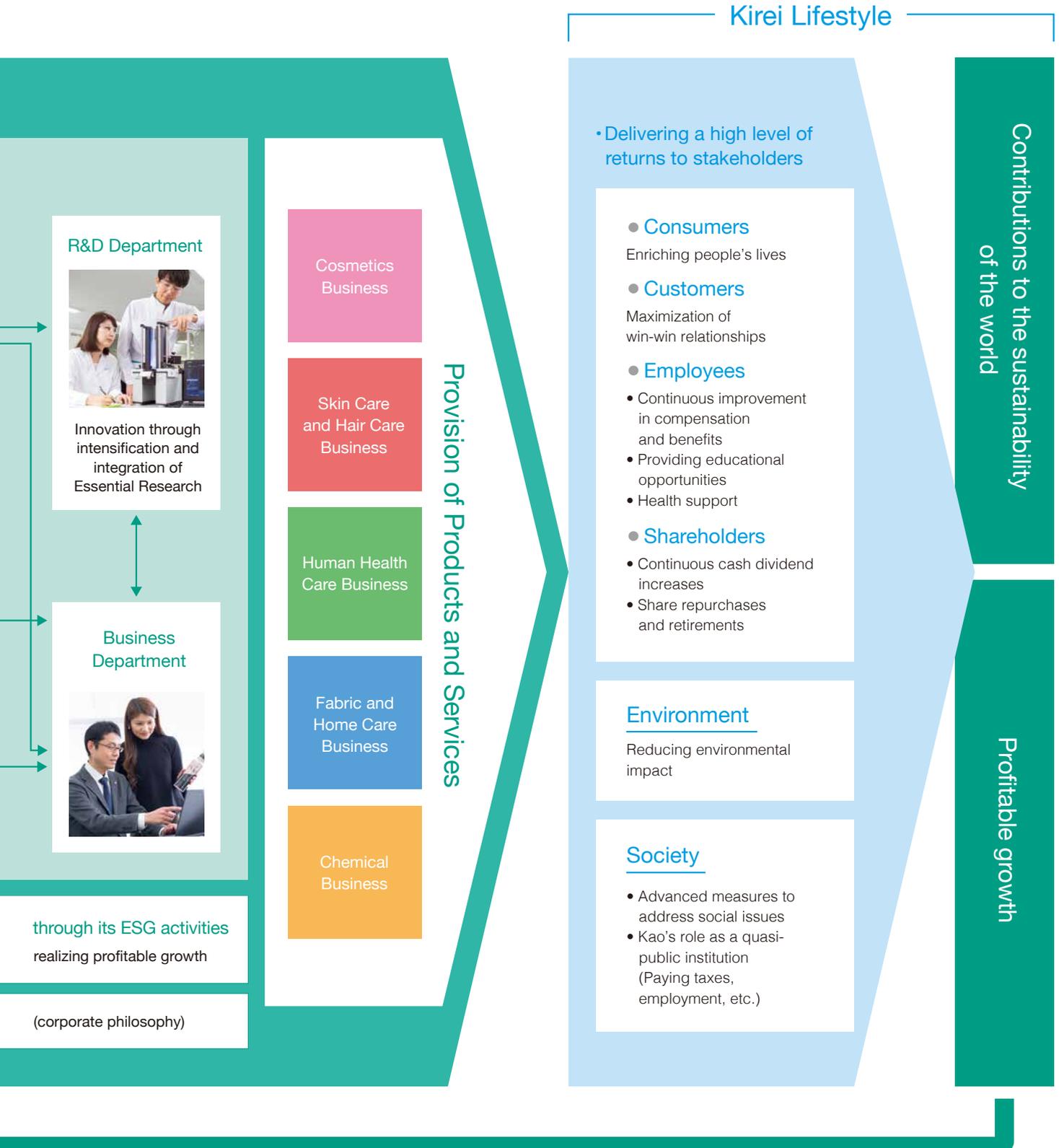
Kao's Yoki-Monozukuri*

Kao aims to make a positive contribution to society by implementing product development from an ESG perspective. To this end, we provide products and services that contribute towards resolving social issues by making effective use of the assets that we have built up over the years, and by responding to consumers' diverse needs. By contributing to society and realizing sustainable profitable growth through our *Yoki-Monozukuri*, we are



able to maintain a cycle that leads to new investment. Through our contribution to the realization of a sustainable society, we strive for the enhancement of corporate value over the long term, and enhance our presence in relation to stakeholders.

* We define *Yoki-Monozukuri* as a "strong commitment by all members of the Kao Group to provide products and brands of excellent value for customer satisfaction."



Monthly Topics in 2018

Management Topics

FY2018 marked the second year of implementation of the Kao Group Mid-term Plan 2020 (K20). Kao acquired Washing Systems, LLC, a U.S. Professional-use products business, which represented an important investment in the global expansion of business-to-business (BtoB) sales. In the Cosmetics Business, we established a New Global Portfolio to serve as the core element in the global growth strategy.

<p>January</p> <p>Reorganizing the structure of the Consumer Products Business</p> <p>The existing eight business groups were reorganized into 10 businesses and one project, to realize faster decision-making and accelerated global expansion.</p>	<p>February</p> <p>Selected as the grand prize winning company for the Corporate Governance of the Year® Prize</p> <p><small>* Corporate Governance of the Year® is a registered trademark of the Japan Association of Corporate Directors (JACD).</small></p> 	<p>April</p> <p>Established a new Strategic Innovative Technology Team</p> <p>This team was established to promote a strategic digital transformation, and to realize a business transformation and enhancement of operational efficiency through the effective utilization of cutting-edge technology.</p>
	<p>February</p> <p>Selected as one of the World's Most Ethical Companies® (12th consecutive year of being selected)</p> <p><small>* "World's Most Ethical Companies®" and "Ethisphere" names and marks are registered trademarks of Ethisphere LLC.</small></p> 	

<p>January</p>	<p>February</p>	<p>March</p>	<p>April</p>	<p>May</p>	<p>June</p>
	<p>February</p> <p><i>Sofina Primavista</i> Makeup base that helps to prevent foundation breakdown due to oily skin</p>  <p><i>Bioré</i> Cooling sheet</p> 	<p>March</p> <p><i>Goldwell Pure Pigments</i></p>  <p><i>J.F. Man</i></p> 	<p>April</p> <p><i>Medicated PureOra</i> Foaming Toothpaste</p>  <p><i>Attack Pro EX</i> soap</p>  <p><i>Bioré</i> Facial Sheet that keeps makeup intact</p> 	<p>May</p> <p><i>Rerise</i> Hair color for gray hair</p> 	<p>June</p> <p><i>Sofina Aube</i> Brush One-Touch Shadow</p> 

Product Topics

September

Kao selected for inclusion in the Dow Jones Sustainability World Index* for fifth consecutive year

* The Dow Jones Sustainability World Index (DJSI) is an ESG index provided by the U.S.-based S&P Dow Jones Indices and RobecoSAM, which evaluates sustainability.

August

Kao acquired Washing Systems, LLC, in the U.S., strengthening its Professional-use products business

July

Established a new ESG Division

The new ESG division was established to undertake the worldwide promotion of sustainable growth—for both business and society as a whole—that takes ESG as the foundation for management.

October

Included in the S&P/JPX Carbon Efficient Index

Kao is now a constituent of all of the ESG indices selected for investment by Japan's Government Pension Investment Fund (GPIF), which include, besides the S&P/JPX Carbon Efficient Index, the FTSE Blossom Japan Index, the MSCI Japan ESG Select Leaders Index, and the MSCI Japan Empowering Women Index (WIN).

November

Kao held a Technology Innovation Session

This session was held to spread awareness of the high-level research and technology capabilities with which Kao is contributing to the building of the society of the future, and to promote open innovation that involves collaboration between industry, government and universities.

New Technologies in Five Key Fields

- Skin science: Fine Fiber
- Health science: RNA monitoring
- Hair science: Created Color
- Surface science: Bio IOS
- Environmental science: Package RecyCreation

July

August

September

October

November

December

August

KATE Lash Former



September



Biore Pure Skin Cleanse



Curel Moisture Balm



SOFINA iP Base Essence



SUQQU Extra Rich Glow Cream Foundation



Kanebo Lift Serum



Relief ultra-thin adult diapers Low-rise pants (single-use pack)

October



Jergens Deep Restoring Argan



Kyouryoku Kabi Haiter mold remover drain cleaner



Men's Biore ONE



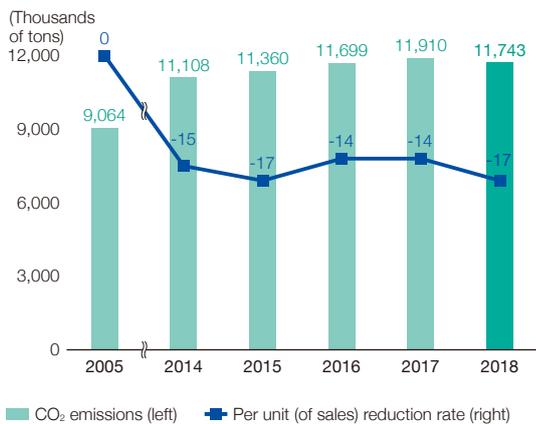
Quickle Wet-sheets for cleaning fabric and carpets

Non-financial and Financial Highlights

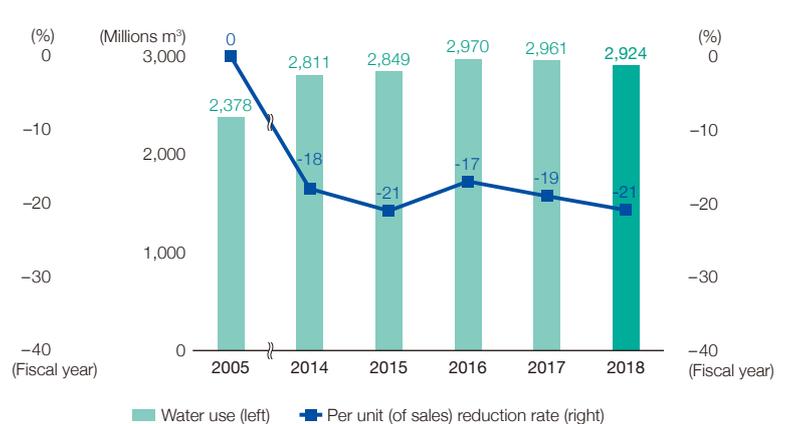
Key Points

- Selected for inclusion in the Dow Jones Sustainability Index (DJSI World and DJSI Asia Pacific)*¹ for the fifth year in a row
- Selected as one of the World's Most Ethical Companies® for the 13th consecutive year (February 2019)
- Received an A evaluation from the Carbon Disclosure Project (CDP)*² in the water and supplier engagement categories, and an A- evaluation in the climate change and forests categories
- Profits grew for the ninth consecutive year and operating income reached record highs for the sixth consecutive year, there by reflecting our sustained growth
- Continued to actively offer returns to shareholders, marking the 29th consecutive year of dividend growth
- Economic Value Added (EVA®) continued to grow, rising 3.4% year-on-year

CO₂ Emissions across the Product Lifecycle*³



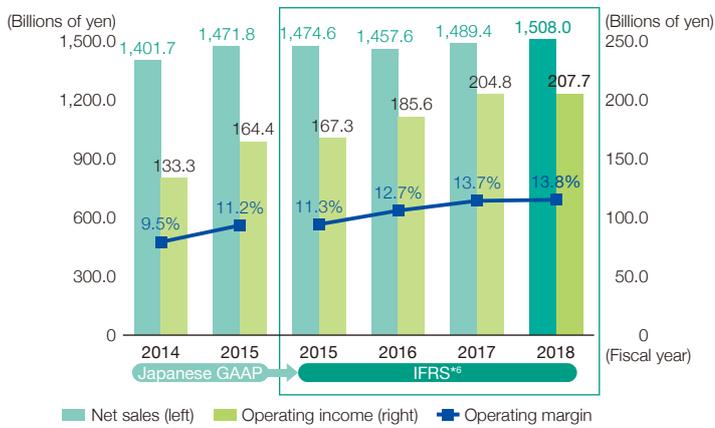
Water Use across the Product Lifecycle*⁴



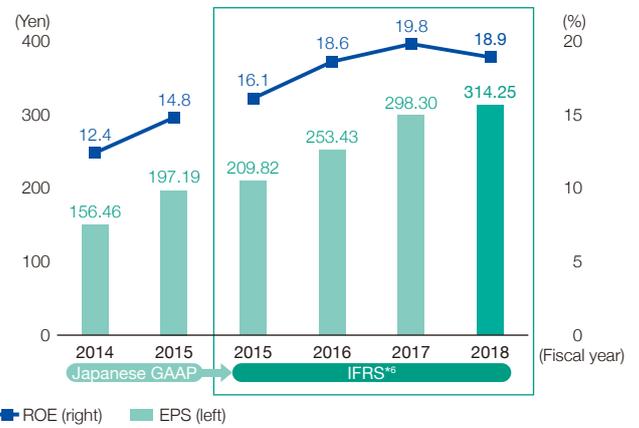
External Evaluation

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
DJSI World / DJSI Asia Pacific		●	●					●	●	●	●	●
FTSE4Good		●	●	●	●	●	●	●	●	●	●	●
MSCI Global Sustainability				●	●	●	●	●	●	●	●	●
World's Most Ethical Companies®	●	●	●	●	●	●	●	●	●	●	●	●
CDP (climate change)		● Outstanding information disclosure	● Outstanding information disclosure	● Outstanding information disclosure	● Outstanding information disclosure		● Outstanding information disclosure	● Outstanding information disclosure	● Outstanding information disclosure	● A-	● A-	● A-
Euronext Vigeo Eiris World 120 Index								●	●		●	●
ETHIBEL	●	●	●	●	●	●	●	●	●	●	●	●
oekom	●	●	●	●	●	●	●	●	●	●	●	●

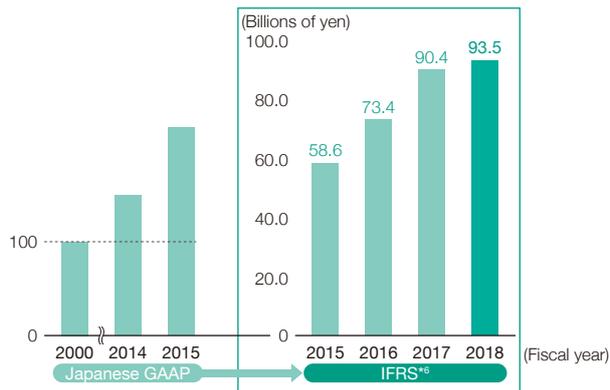
Net Sales / Operating Income / Operating Margin



ROE*7 / EPS*8

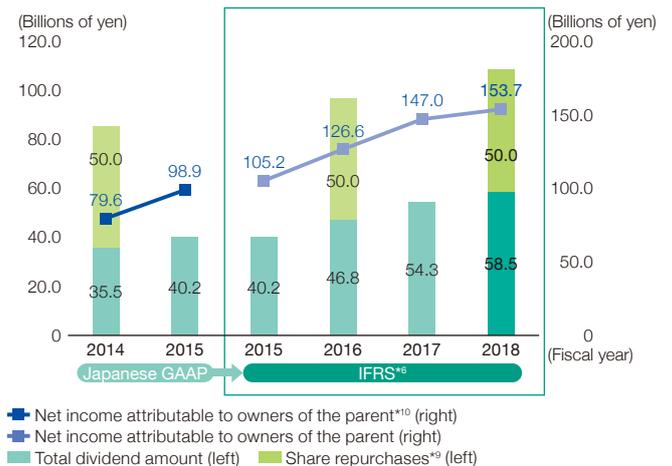


EVA®*5

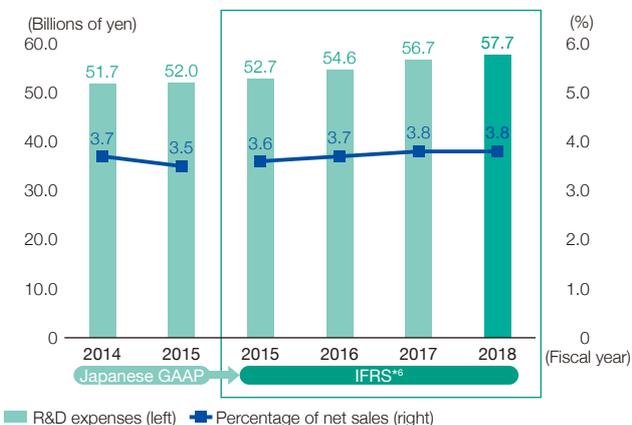


EVA® under Japanese GAAP is presented as an index with 100 representing the fiscal year ended March 31, 2000.

Net Income Attributable to Owners of the Parent / Shareholder Returns*9



R&D Expenses / R&D Expenses Ratio



*1 DJSI World and DJSI Asia Pacific is an ESG index provided by the U.S.-based S&P Dow Jones Indices and RobecoSAM, which evaluates sustainability.
 *2 CDP is an international NGO engaged in environmental fields such as climate change. CDP analyzes and evaluates information on environmental efforts by major global corporations, specifically pertaining to climate change from the perspective of corporate management risks brought about by climate change.
 *3 "CO₂ emissions across the product lifecycle" is defined as the combined total for the amount of lifecycle emissions of individual products, excluding emissions during manufacturing and distribution, multiplied by their annual sales quantity and the amount of emissions from the group's manufacturing and distribution processes. However, this amount does not include emissions related to the use and disposal of Chemical products.
 *4 "Water use across the product lifecycle" is calculated by multiplying lifecycle water use of individual products, excluding use during manufacturing and distribution, by their annual sales quantity and the amount from the group's manufacturing and distribution processes. This amount includes water used for procurement in regard to Chemical products but does not include water used in the use and disposal of such products.
 *5 EVA® is a registered trademark of Stern Stewart & Co.
 *6 The Kao Group adopted IFRS in FY2016.
 *7 Ratio of net income to net assets, excluding non-controlling interests and stock acquisition rights (Japanese GAAP)/Ratio of net income to equity attributable to owners of the parent (IFRS).
 *8 Net income per share (Japanese GAAP)/Basic earnings per share (IFRS).
 *9 Excludes repurchase of shares of less than one trading unit.
 *10 The Kao Group has adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and other standards. Accordingly, "net income" has been changed to "net income attributable to owners of the parent."



Consumers can refill and reuse original product containers.



Chapter

2

What Kao Aims for

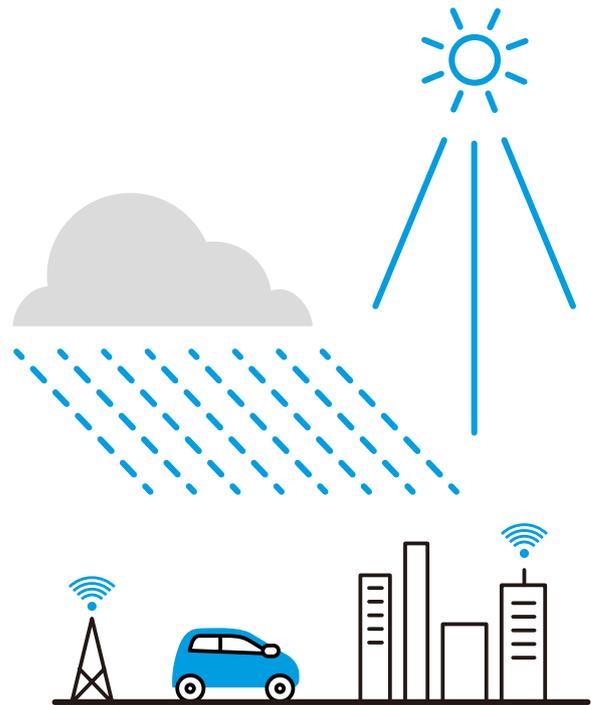
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The Social Situation

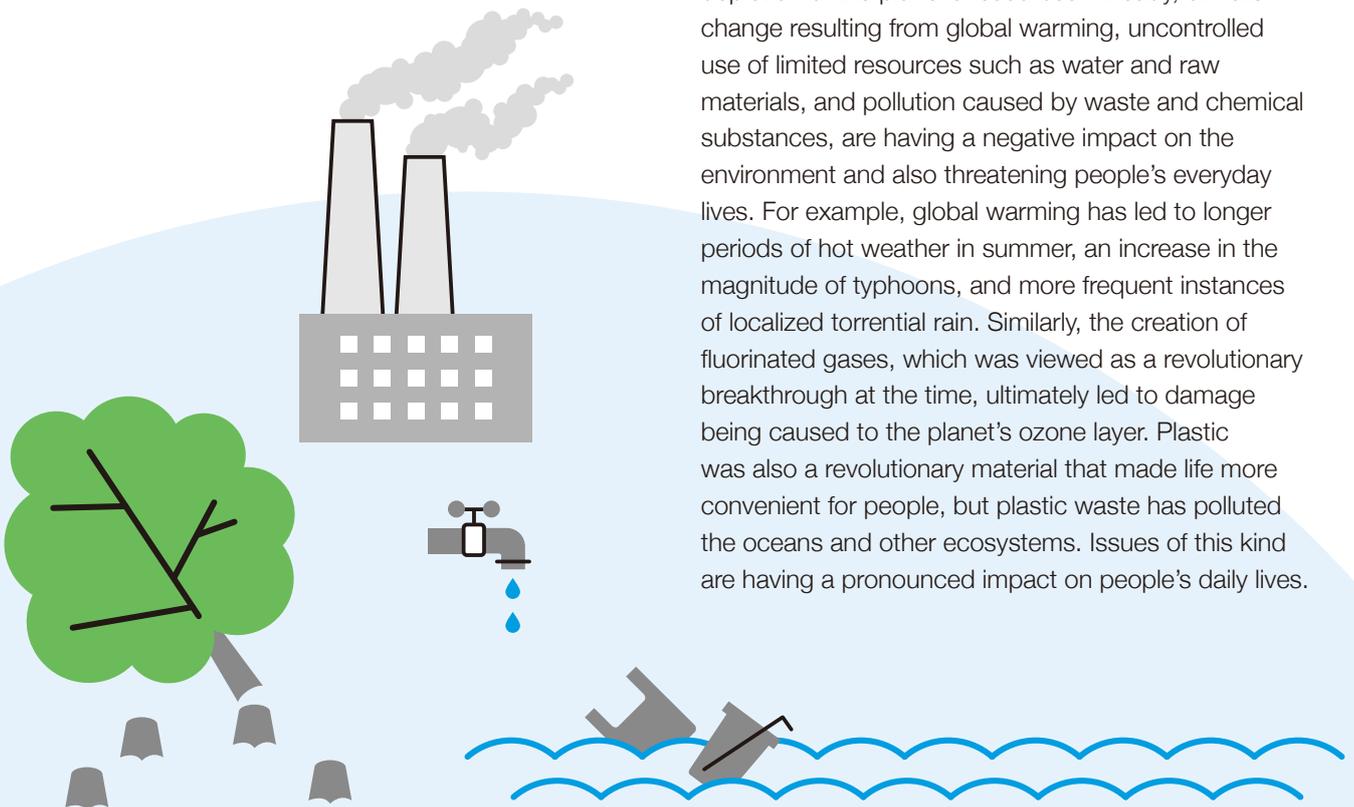
Aiming for Continued Development as a Sustainable Business Enterprise

The global society in which Kao operates is constantly undergoing dramatic change, of which the most obvious examples include the rapid evolution of technology and increased population flow. The emergence of the digital society has made it possible for people to access huge amounts of data of many different kinds, and has led to the normalization of the formation of virtual communities and a shortening of information lifecycles. At the same time, with the changes that have been taking place in lifestyles and in family structures, and with the new trend toward ethical consumption, there has been a diversification of people's patterns of behavior, values and needs, which has resulted in ever-growing product diversification.

A report by the United Nations published in June 2017 forecast that the world's population would reach 8.6 billion people by 2030, rising to 9.8 billion in 2050 and to 11.2 billion by 2100. We believe that it is important for us to do what we can, with integrity, to ensure that, in the future, our planet remains a place where people can live comfortable lives.



All of us benefit from the natural resources that have been created on this planet by being able to utilize them in our economic activities. It is therefore vitally important to combat environmental pollution and inefficient resource utilization that could lead to the depletion of the planet's resources. Already, climate change resulting from global warming, uncontrolled use of limited resources such as water and raw materials, and pollution caused by waste and chemical substances, are having a negative impact on the environment and also threatening people's everyday lives. For example, global warming has led to longer periods of hot weather in summer, an increase in the magnitude of typhoons, and more frequent instances of localized torrential rain. Similarly, the creation of fluorinated gases, which was viewed as a revolutionary breakthrough at the time, ultimately led to damage being caused to the planet's ozone layer. Plastic was also a revolutionary material that made life more convenient for people, but plastic waste has polluted the oceans and other ecosystems. Issues of this kind are having a pronounced impact on people's daily lives.



From our point of view, as a business enterprise that operates all over the world, transformations in the natural environment and the resulting natural disasters, as well as the growing threat posed by environmental pollution, constitute significant risks. On the other hand, it is also fair to say that, taking rising temperatures as an example, if this leads to an increase in the frequency with which people do the laundry, then there will be an increase in the amount of washing detergent used. Demand for facial-cleaning wipes and water conservation products will also rise, so climate change will also create new business opportunities to some extent.

At the same time, if a business enterprise is unable to adapt and respond to issues such as declining birthrates, the aging of the population and the digitalization of society—the precise impact of which varies from region to region and from country to country—then that enterprise can expect to miss out on business opportunities. If we are able to provide products that are carefully tailored to meet the needs of individual countries and regions and of particular generations, then not only will this generate enormous business opportunities for our company, we will also be able to make a positive contribution to society as a whole, including our consumers and customers in general.

By contributing proactively toward the building of a society in which diversity is respected and which is free from poverty and discrimination, not only will we be able to maintain a strong relationship with society, we will also be able to create employee-friendly workplaces and enhance employees' motivation and satisfaction. If, on the other hand, we fail to address these issues, then we will find it difficult to recruit and retain first-rate personnel, and will find ourselves losing important human assets.

In order to respond to the risks outlined above and take advantage of the opportunities that are associated with them, it is important for us to review the approach to doing business that we have developed over the years, and to use our products to provide value for society in a responsible manner.

For Kao to realize its vision by 2030, it needs to utilize its strengths to address environmental and social problems, and take up the challenge of boldly facing up to the transformations taking place around it, so that Kao can give back to all of its stakeholders, including consumers, customers, employees, shareholders, and society as a whole. Kao will continue to challenge itself, in a way that lives up to its corporate philosophy, to ensure that Kao continues to be viewed by the world in general as a business group that is of real value and importance to society.



Undertaking research to create environmentally conscious products.



Hand-washing awareness raising activity aimed at improving hygiene habits.

CEO Message



Transforming ourselves to drive change. Through our distinctive ESG activities “Kirei Action,” we will generate significant growth

The Kao Way, our corporate philosophy is the foundation of all corporate activities. 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. By transforming ourselves to drive change, we will become a corporate group with a global presence by 2030 and be able to continue delivering a high level of returns to stakeholders.

Amid major changes to the society and the natural environment, we position not only our financial strategy but also our non-financial strategy and initiatives as being among our most important management priorities for ensuring the sustainable business growth of the Kao Group now and in the future. Therefore, we are launching major global ESG activities for the group that we have named “Kirei Action.” We are designing and conducting these activities with our unique approach to help people throughout the world to realize the kind of future we want create. This requires a serious commitment to addressing the social issues presented in the Sustainable Development Goals (SDGs) and recognition of trends including strict environmental regulations and ethical consumption.

The Kao Group Mid-term Plan K20 is an important step toward realizing this goal. In FY2018, as the second year of K20, we made further progress in reflecting an ESG perspective in our *Yoki-Monozukuri* to benefit society. We also took steps to further enhance our corporate value with the goal of fostering a distinctive corporate image unique to Kao that makes effective use of our existing businesses and strategic brands. As a result, we have achieved nine consecutive years of increased profit, six consecutive years of record high operating income and twenty-nine consecutive years of dividend growth.

The Kao Group’s business is now spreading around the world. While the regions in which we operate and our product categories have multiplied in number, our commitment to being a valued source of support for consumers and customers and to enriching both people’s lives and society as a whole has remained unchanged since our founding.

The contributions we make to creating sustainability in society are investments in the future. We are committed to living up to expectations that we will direct the management of our business based on new ideas not bound by existing concepts. We at the Kao Group will boldly take on challenges with a unique approaches while continuing to value the mission entrusted to us by our founder.



Michitaka Sawada

Representative Director
President and Chief Executive Officer

CEO Interview



Q1

What did the Kao Group achieve in FY2018?

First, I am pleased to say that we have achieved nine consecutive years of increased profits, six consecutive years of record-high operating income and twenty-nine consecutive years of increased cash dividends. I would like to express my deep appreciation to the many stakeholders whose support has contributed to this result. We also focused on revitalizing our Cosmetics Business, which had been struggling, and achieved results there. We improved operating income by more than 10 billion yen, and our operating income margin also approximately doubled over the previous year to around 10%. Looking ahead, we will shift to

strengthening our brands, which is a pillar of our cosmetics growth strategy that we announced in May 2018. Our mass skin care brand *Bioré* continues to grow and has established itself as a global brand with a scale of 100 billion yen. Alongside this, we have built on our ESG activities, which form the core of our non-financial activities. We established the new ESG Division in July 2018, led by senior management from Kao USA, and are conducting ESG activities as a long-term investment. These activities will ensure that we increase our corporate value in the long term as well as achieve a greater global presence for the Kao Group.

Q2

Could you describe the social significance of Kao's initiatives in FY2018?

I think it is fair to say that FY2018 was the year we truly embarked on *Yoki-Monozukuri* from an ESG perspective. We always consider the ways we can benefit society as we conduct our activities. As long as we stay true to this, it will lead to profitable growth. If we have profitable growth, then we can fulfill our social role as a public institution and provide stakeholders with a high level of returns. All of the products and services we offer have been designed with considerations for their environmental and social benefit. In October 2018, we released "Our Philosophy & Action on Plastic Packaging," which defines our basic approach, activities conducted to date, and future direction. We must not think of selling products as the end of our responsibility, but instead must take responsibility and plan down to the final processing. We are serious about taking action to solve the problem of plastic waste, including

plastic in the ocean, so that we can reduce our environmental impact across the entire product lifecycle.

In recognition of our FY2018 activities, we were selected for the World's Most Ethical Companies® list in February 2019. We are the only Japanese company that has been selected for the list for thirteen consecutive years, since it was established in 2007. Our core value of Integrity supports our ESG activities. We will continue to conduct our activities while keeping in mind the spirit of *Integrity* that runs through the Kao Way, our corporate philosophy.

Keynote speech at the 2018 Fabric and Home Care World Conference

In October 2018, the Fabric and Home Care World Conference was held in Florida, USA, with 450 participants from 33 countries and regions around the world.

In my keynote speech, I talked about how the essence of cleaning was not just the functional value of removing dirt, but the act of showing care for others. What I mean is that cleaning has an emotional component, and detergent has the power to connect people to each other and to society.

I called on our industry to conduct product development from this new perspective and to work together to make contributions to resolving environmental and social problems.



Q3

Could you describe Kao's future direction and specific actions you are taking?

FY2019 is positioned as a decisive year for us. I would like this to be the year when we really see the fruition of what we have accomplished in the first two years of K20 as well as the issues that have emerged and the technologies and expertise we have built up. Specifically, we will take actions in response to the increase in Japan's consumption tax and advance our business activities with primary focus on further development of the Cosmetics Business, reinforcement of the Consumer Products Business in the Americas and Europe and revitalization of the Baby diaper business. In addition, we will undertake commercialization of five technologies that we announced at the Technology Innovation session held in November 2018. Building on our brands is key to the further development of the Cosmetics Business, which is showing recovery. We will pursue this by concentrating investment in selected focus brands, namely 11 global brands (G11) and eight regional brands (R8), launching new products, expanding our global operations and others. Consumer products in the Americas and Europe have struggled, and starting in FY2019 we switched to a locally led production structure. The Hair care products in the Americas and Europe is particularly challenging. Globally, hair care is becoming more of a collection of "small mass markets*," and companies need to be able to quickly offer products that go ahead of the times. The trend of ethical consumption is also on the rise, and we will act accordingly with a new organization while incorporating an ESG perspective. Our business activities in China are key to the Baby diaper business. A range of factors was behind the challenging business conditions we experienced in FY2018, and we are seeking to revitalize the business in FY2019 with a more flexible strategy. Considering the larger infant population globally, the Baby diaper business still has room for growth. I intend to apply the technological capabilities of the Kao Group to this end.

We announced the five technologies of fine fiber, RNA monitoring, Created Color, Bio IOS and Package RecyCreation at the Kao Group Technology Innovation Session. We received a strong response after the announcement and a lot of feedback about our technology applications. Based on this, I plan to move all of these technologies to the commercialization planning stage in 2019. We intend to elevate these technologies to innovations that hold the power of social transformation.

We will also build on our ESG activities. We have formulated the Kirei Lifestyle Plan, which embodies our ESG strategy, and we will be taking concrete steps to put this plan into effect globally in FY2019. The actions of our individual employees play an important role in this, and we will be sharing our ideas and beliefs with them as we move forward.

We established the Strategic Innovative Technology Team in April 2018 and got it fully up and running. Using advanced technology such as AI, IoT, and robots in ways that embody who we are will be an important part of our corporate activities going forward. Advanced technology will not only prove useful in product development such as in business, research and production, but also in communicating our value proposition such as sales and marketing and in building up human resources including personnel development and hiring. We will take steps toward in FY2019 while strengthening our cooperation with outside partners.

FY2019 is certain to be a decisive year for us. We will push forward without fear of failure. And we are aiming to achieve ten consecutive years of increased operating income, seven consecutive years of record operating income, and thirty consecutive years of increased cash dividends. The results of this will facilitate achievement of K20, and we will be united in this effort as a group.

* Sub-markets smaller than the mass market that maintain a certain scale (term defined by Kao).

Q4

Could you talk about your views on further enhance corporate value?

Building on our ESG activities and *Monozukuri* from an ESG perspective are important. The foundation for this is keeping in mind that the essential nature of our corporate activities is serving society. If we can do this well, then we will absolutely make contributions to society, and this will also lead to profitable growth. In turn, this will lead to increased corporate value in the long term.

However, since natural disasters are frequent and the business environment is challenging and filled with social and economic uncertainties,

achieving this is not easy. In addition, the world around us is changing in more disruptive ways. Amid this situation, it is important to not only quickly adapt to change but also to instigate change ourselves. We made K20's slogan "Transforming ourselves to drive change," and putting this slogan into practice will make it possible.

The Kao Group will continue to transform. And, we will absolutely become a company with a global presence. I hope to have your continued support.

Dialogue with Shareholders

To enhance corporate value, we are seeking to create opportunities for dialogue with shareholders and institutional investors. This dialogue will deepen their understanding of Kao and serve to create sustained company growth and mid- to long-term corporate value.



Genba* Roundtable Meeting

The Kao Way contains the principle of *Genba*-ism, and we are holding *Genba* Roundtable Meetings at Kao Group locations around the world. Here, top management communicates their thoughts and aspirations for the Kao Group directly to employees working at local sites, exchange of opinions with them, and reflect feedback from local sites in management operations.



* *Genba* literally means "actual spot." At Kao, *Genba*-ism defines the importance of observing things "on-site," in the actual location and environment, both internally and externally, in order to maximize our understanding the business and optimize our performance.

ESG Strategy



David J. Muenz

Executive Officer
Senior Vice President,
ESG, Global

By introducing ESG (Environmental, Social and Governance) factors into our business strategy, we aim to expand our business and provide even better products and services to consumers and society.

Imagine Kao supporting billions of people to live a more sustainable lifestyle. This is a bold idea. But it is an idea that the world needs now more than ever, and an idea we are uniquely placed to make real. It is an idea that has the potential to accelerate our business growth and value too.

We are acting on this bold idea because the context in which we operate is changing rapidly. Issues like climate change, aging societies, resource scarcity, plastic waste in the oceans, together with rapidly advancing technologies are transforming the very foundations of our markets and shifting stakeholder needs. This is particularly true of the next generation of consumers in growth markets. These younger consumers want to make a positive impact on the world and have higher expectations of business to match. They want quality products that protect the environment, transparency, and brands that allow them to live their values.

In the face of this changing landscape, we need a plan that will make us resilient and help us grow. That is why we set up a new ESG Division in July 2018 and are launching our new ESG strategy that builds on the strengths of our previous sustainability plans but pushes our ambition, commitments and 2030 goals to a level of global leadership.

Ever since Kao began business in 1887, we have always put consumer needs at the heart of everything we do. In 2019, those consumer needs have changed, but our approach remains. Our new ESG strategy outlines how we will serve our consumers' needs and desires to live more sustainable lifestyles that contribute to a more sustainable world. We call it the Kirei Lifestyle – living a beautiful life inside and out.

To deliver this, we need to step up innovation at every level of business – from procurement to production, from point of use to product disposal.

Our actions need to offer much more than just incremental improvements, marking a real step change from past efforts. We will call these new actions our Kirei Actions. As always, excellence in innovation and technology – the hallmark of Kao – will be key to our success. And, with the R&D assets that we have amassed over the years, we will develop new sustainable innovations, and work with

like-minded partners across industries to make them scalable and maximize their impact.

I firmly believe that this renewed commitment to, and action on, ESG will play a pivotal role in achieving Kao's ambition to enhance our presence on the global stage, and earn the support and trust of those we serve.

Governance structure

A robust governance structure will ensure that Kao harnesses the power across the organization to successfully activate the ESG vision and strategy.

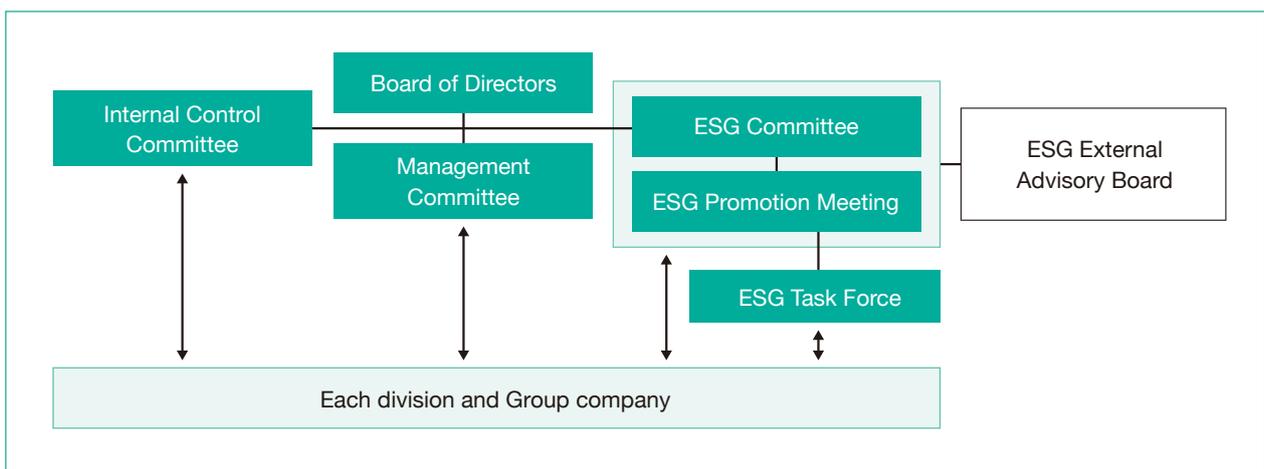
The ESG Committee has been set up directly under the Board of Directors, above the Management Committee, as a body that has responsibility to approve and manage ESG direction, strategy, and performance for the long-term success of Kao.

Under the Committee, the ESG Promotions Meeting has been established to shape and drive ESG strategies. Comprising leaders of businesses,

functions, and regions across the company, it plays a vital role in integrating ESG into the business strategy and operations. To enable us to develop plans and activate them quickly, the ESG Promotion Meeting will develop and assign task force teams, as required, to address topics of priority.

An ESG External Advisory Board, made up of experts from diverse fields, has been established. The purpose of this Board is to secure global input that will enable us to develop world-class plans and actions, as well as open up opportunities for external collaboration and partnerships.

ESG Promotion Structure



Kirei Lifestyle Plan

Kao's ESG strategy has been developed and designed to serve people's needs, behaviours and desire to live sustainable lifestyles that contribute to a sustainable world. We call this the Kirei Lifestyle, and we call the vision, commitments and actions that contribute to that lifestyle

Our Vision

A Kirei lifestyle means living a beautiful life inside and out.

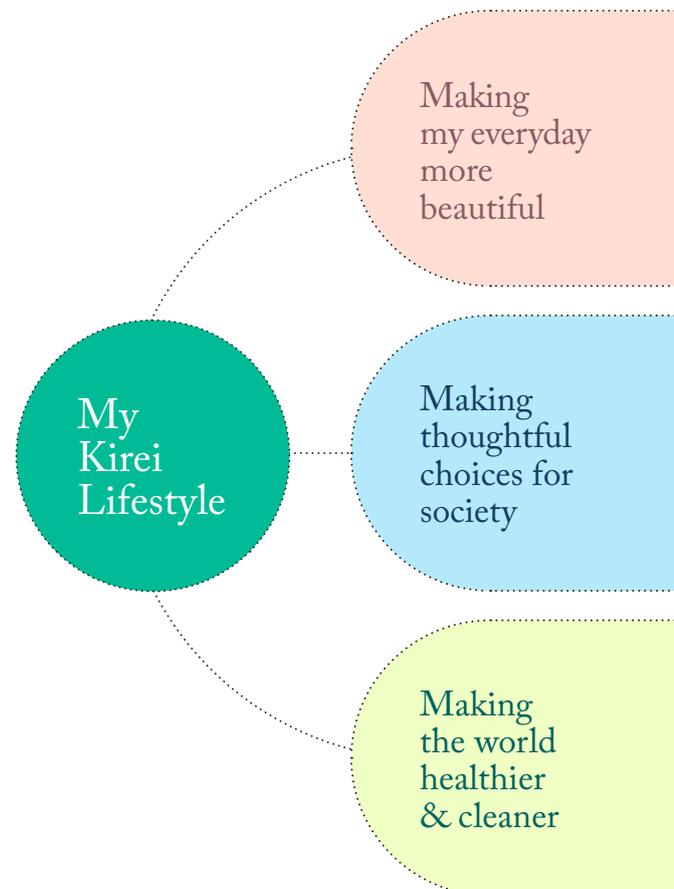
A Kirei lifestyle is full of compassion. Where making your own life clean and beautiful never compromises the beauty and cleanliness of the world around you.

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.

Our ESG Commitments and Actions



the Kirei Lifestyle Plan. Kao will strive to create a long-lasting impact to society through the Kirei Lifestyle Plan.

To achieve the Kirei Lifestyle that people desire, Kao will use its Research and Development assets and technologies to create innovations with long-lasting positive impact. To deliver our vision of a Kirei Lifestyle for all, we have set out three ambitious 2030 commitments supported by 19 leadership actions.

Kao Commitments by 2030

Kao Actions

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

IMPROVED
QUALITY
OF LIFE

HABITS FOR
CLEANLINESS,
BEAUTY
& HEALTH

UNIVERSAL
PRODUCT
DESIGN

SAFER
HEALTHIER
PRODUCTS

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

SUSTAINABLE
LIFESTYLE
PROMOTION

PURPOSE
DRIVEN
BRANDS

TRANSFORMATIVE
PRODUCT
INNOVATION

RESPONSIBLY
SOURCED RAW
MATERIALS

BY 2030

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

DECARBONIZATION

ZERO
WASTE

WATER
CONSERVATION

AIR & WATER
POLLUTION
PREVENTION

EFFECTIVE
CORPORATE
GOVERNANCE

FULL
TRANSPARENCY

RESPECTING
HUMAN
RIGHTS

INCLUSIVE
& DIVERSE
WORKPLACES

EMPLOYEE
WELLBEING
& SAFETY

HUMAN
CAPITAL
DEVELOPMENT

RESPONSIBLE
CHEMICALS
MANAGEMENT

Walking the right path

A healthy planet for future generations

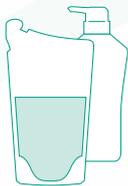
Kao is committed to reducing the amount of plastic used in its product container and packaging including offering refill packs so that consumers can reuse their original ones. To further reduce our environmental impact, we are now seeking to make our plastic containers and packages fully recyclable.



[Film refill pack]

Promoting container reuse with refill packs

Consumers can refill and reuse original product containers. This greatly reduces plastic consumption.



[Raku-raku Eco Pack Refill]

Making it easier to refill containers without wasting or spilling

The *Raku-raku Eco Pack Refill's* new design updates the concept of refill packs. It's now even easier for anyone to use them, contributing to their increased usage.



[Smart Holder]

Using *Raku-raku Eco Pack Refills* without the original container

This new holder allows consumers to use *Raku-raku Eco Pack Refill* packs directly, without needing to refill anything.





Developing 100% recyclable mono-material film packaging

Film containers and packages use multiple layers of materials to protect their contents, making recycling more difficult. If they can be made using a single type of material, it will greatly reduce their environmental impact. We are now conducting research to make this a reality.



Innovation that enriches daily life across the world

We are committed to enriching daily life for people around the world—now and in the future. That is why Kao is working to help resolve social issues through the development of new raw materials and technologies.

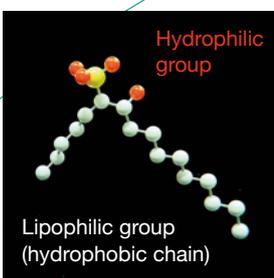
Sustainable, next-generation detergent base Bio IOS

Bio IOS is a new surfactant that was created from Kao's interface science research. It blends easily with oil and is highly water-soluble, properties that allow it to perform better than existing products and make it perfect for use as a detergent base. Bio IOS is made from the material left behind after extracting edible palm oil from the fruit of the oil palm. Until the creation of Bio IOS, there had been no effective way to use this leftover material. As the world's population continues to increase, surfactant use is also expected to rise. We are pursuing sustainable procurement of raw materials through the widespread use of Bio IOS, an innovative new surfactant.



Oil palm fruit, the main raw material in surfactants





Bio IOS molecular structure model

Its special structure has a long lipophilic group with a hydrophilic group at its midsection.

Hydrophilic group: part with high affinity to water
Lipophilic group (hydrophobic chain): part with high affinity to oil

Detergent that completely transforms the conventional concept of cleaning

The liquid laundry detergent *Attack ZERO* is the first commercialized product to use Bio IOS, a sustainable surfactant. The properties of Bio IOS allow it to penetrate deep into fabrics and demonstrate powerful cleaning action, all while leaving little dirt or detergent residue after rinsing, and maintaining its effectiveness even in cold water. Because everyone around the world deserves cleanliness in their daily lives, we will continue to explore the potential applications of Bio IOS from various angles.



Kao Group's Management Vision

Progress and Road Map for Kao Group Mid-term Plan K20

Kao was able to meet all management and numerical targets adopted in K15 (FY2013 to FY2015), Kao's first publicly announced mid-term plan. Kao will further accelerate efforts to achieve our vision by 2030. K20 represents an important milestone toward achieving our vision by 2030, and we are making steady progress toward K20's achievement. Kao has already started taking action to reach our vision of becoming a company with a global presence by 2030.

FY2013 to FY2015

Mid-term Plan K15

Kao's first publicly announced mid-term plan, sought to improve Kao's ability to formulate and execute detailed strategies

Review of Numerical Targets and Performance			
	Numerical targets	Results	Achievement ratio
Net sales	1.40 trillion yen	1.47 trillion yen	105%
Operating income	150.0 billion yen	164.4 billion yen	110%
Sales ratio outside Japan	Over 30%	35%	Achieved

Formulated detailed strategies and steadily achieved results

FY2017 to FY2020

Mid-term Plan K20*

Mid-term plan focused on the following three points

- Commitment to fostering a distinctive corporate image**
 - Become a company that is always by the consumer's side
- Commitment to profitable growth**
 - Continue to set new record highs for profits
 - Aim for like-for-like net sales CAGR of +5%
 - Operating margin of 15%
 - Three 100 billion yen brands (*Merries* baby diapers, *Attack* laundry detergents, *Bioré* skin care products)
- Commitment to returns to stakeholders**
 - Shareholders: Continuous cash dividend increases (40% payout ratio target)
 - Employees: Continuous improvement in compensation, benefits and health support
 - Customers: Maximization of win-win relationships
 - Society: Advanced measures to address social issues

Progress over FY2018

FY2018 Results	
Record highs for operating income	Achieved record highs for profits for the sixth consecutive year
Sales growth	+1.2% year-on-year (like-for-like*2 1.3%)
Increase in operating margin	Up 0.1 point year on year
Dividend increases	+10 yen year on year
Cultivation of 100 billion yen brands	Continued to successfully cultivate our three 100 billion yen brands
Improvements in employee compensation	Continuously improved remuneration levels and human resource systems
Improvements in health support	Expanded initiatives to promote health (Selected as a Health and Productivity Management Stock Selection for the fourth consecutive year)

An important milestone toward achieving our vision by 2030

The ability to realize sustainable increases in profits and dividends

“Addressing social issues” and “Expanding value creation domains” through creativity that offers innovation and change

What Kao Aims to Be by 2030 ^{*1}

Make Kao a Company with a Global Presence

A distinctive corporate image

A high-profit global consumer goods company

A high level of returns to stakeholders

Targets for 2030

Numerical Targets	
Net sales	2.5 trillion yen (1.0 trillion yen outside Japan)
Operating margin	17%
ROE ^{*3}	20%

▶ aim to exceed these targets

^{*1} For the period between 2020 and 2030, Kao may develop a separate action plan to tie these two plans together.

^{*2} Like-for-like growth excludes the effects of IFRS 15 adoption, sales system revisions, and currency translations.

^{*3} Ratio of net income to equity attributable to owners of the parent.

Financial and Capital Strategies



While maintaining a stable financial foundation and actively investing in business growth, Kao will continue to improve its corporate value and achieve long-term stakeholder returns.

Kenichi Yamauchi

Executive Officer
Senior Vice President, Accounting and Finance, Global

Financial Foundation

Kao's Financial Foundation (EVA® Management)

We use Economic Value Added® (EVA) as its principle management metric. EVA® reflects capital cost and is highly correlated with corporate value. Guided by EVA® management, which places importance on both continuous increases in corporate value and long-term profits for all our stakeholders, we have established a sound and well-balanced financial foundation with high profitability and cash flow creation capability.

In order to realize further growth, while taking risks and actively promoting business activities, we also emphasize shareholder returns. While achieving cash dividend increases for twenty-nine consecutive fiscal periods and share repurchases totaling 543.8 billion yen, we have maintained a stable financial foundation.

At an early stage from 1985, we began unifying payments by its domestic group companies, and by centralizing funds, promoted their effective use.

In recent years, we have striven to centralize global funds through the introduction of a global cash management system (netting, pooling, etc.).

During FY2018, the second year of K20, our operating income was 13.8% with an operating income of 207.7 billion yen, breaking the company's highest profit record for the sixth year in a row. In the Cosmetics Business where there had been some concerns, the operating income improved to 9.9% due to new growth strategies, and further profit growth is expected. As a result of improving EVA® improvements through continued shareholder returns, the company's ROE has reached nearly 20%.

Note: EVA® is a registered trademark of the Stern Stewart & Co., a U.S. consulting corporation.

Use of Cash Flow and Shareholder Returns

Kao effectively utilizes its stable operating cash flow as shown below and aims for further growth.

Investments for future growth
(Capital expenditures, M&A, etc.)

Steady and continuous cash dividends (40% payout ratio target)

Share repurchases and early repayment of interest-bearing debt including borrowings

Capital Expenditures/M&A

By using EVA® to make investment decisions, we promote proactive capital expenditures and M&A to maintain business growth.

In the Consumer Products Business, centered around Cosmetics Business, Skin Care and Hair Care Business and Human Health Care Business, we have strengthened the capacity of our domestic production bases to respond to demand in Japan and China, and have also made proactive capital expenditures in Asia where there is a remarkable amount of growth. Moreover, in the Americas and Europe, we have been carrying out M&A in B-to-B businesses such as salon business and Professional-use products business, which are expected to have a synergy with existing businesses.

Furthermore, in the Chemical Business, we have further strengthened our production bases globally, and promoted M&A to accelerate the global business development of our core technologies that help reduce the environmental impact.

By leading to mid- to long-term profitable growth while continuing future growth investment, we will strive to enhance our corporate value through continuous EVA® improvement.

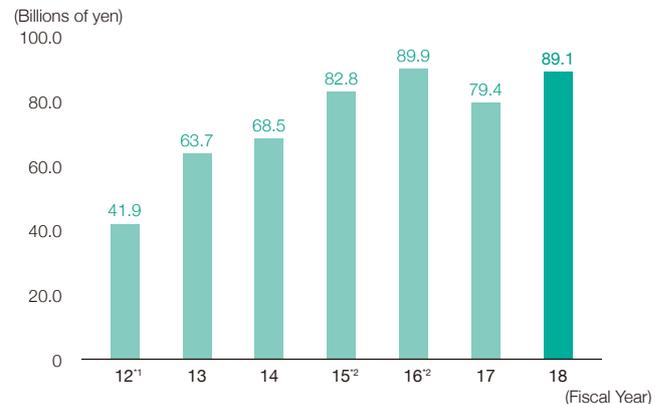
Cash Dividends/Share Repurchases

We place emphasis on steady and continuous cash dividends, and in FY2018, achieved dividend increases for the twenty-ninth consecutive year. Having been generating high level of cash flows from operating activities in recent years, we have greatly increased cash dividends per share in relation to the growth.

Additionally, taking into consideration the balance between our cash reserves and growth investment, in order to improve capital efficiency from the perspective of EVA®, we flexibly pursue the share repurchases and retirements of treasury shares. Share repurchases up until the 2018 totaled 174 million shares, which amount to 543.8 billion yen.

We have made a commitment to deliver high level of stakeholder returns, and aim to continue dividend increases.

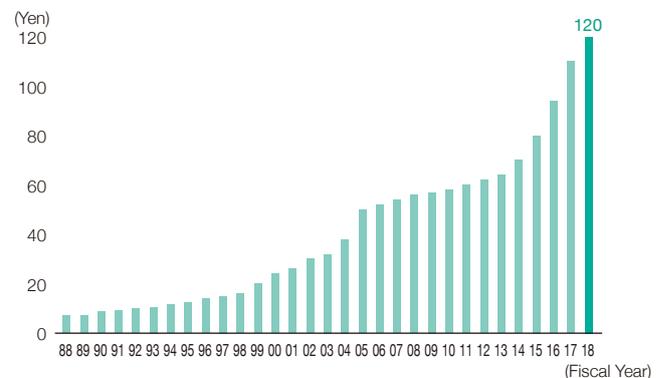
Trend in Capital Expenditures



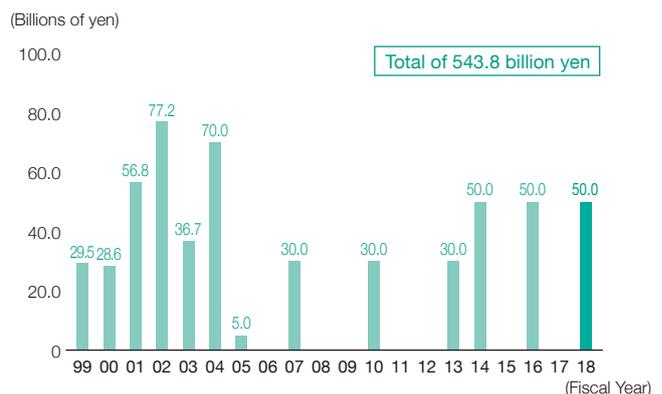
*1 Kao changed its fiscal year end for FY2012 from March 31 to December 31.

*2 The Kao Group adopted IFRS in FY2016. Figures for the fiscal year ended December 31, 2015 have been recalculated based on IFRS.

Performance of Dividends per Share



Status of Share Repurchases





バイオIOS

新・界面活性剤
バイオIOS



精密に設計された分子構造から
生まれるきわめてユニークな特長

油になじむ性質

水に溶けやすい

ともに

*Our researchers are undertaking research into new types of surfactants.



Chapter

3

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Human Capital Development Strategy



Kao encourages each of its employees to continuously make efforts to contribute to the future of Kao. We work toward cultivating such human capital and establishing corporate culture.

Akio Matsui

Executive Officer
Senior Vice President, Human Capital Development, Global

Basic Philosophy

Through *Yoki-Monozukuri*, Kao has gathered together a group of employees who are passionate about contributing to society. With this group of employees, we have established an organization that, as a corporate citizen, place emphasis on a right-minded corporate culture represented by the Kao Way. While passing on our founding spirit, our senior management, managers and those on the frontlines have come together to discuss the future vision for Kao in these times of change. By proactively transforming work-styles, encouraging individuals to challenge themselves, offering fair rewards for business performance and growth, we have established a vibrant organization that is highly adaptable to change.

Among trends that include the digital revolution represented by coexistence with AI, ESG management promotion and the arrival of a super-aging society in some countries, we recognize that the most important asset is our human capital, and discuss and promote hiring and cultivating human capital that will nurture the Kao's sustainable growth, effective company management, and optimal personnel allocation, in a personnel committee where senior management participate as members. Moreover, by appropriately giving back generated added value to our employees (human investment), we are mapping out a positive growth cycle toward creating future added value, K20, and our vision by 2030.

Human Capital Development System

We promote the Guidelines for Human Capital Development which states points 1) pursuing effectiveness and efficiency, 2) respecting human nature, 3) making efforts toward integration, which acts as the basis of Kao's human capital development, on a global basis.

In order to promote company-wide activities in line with our basic policy throughout the entire group, we are introducing and utilizing global common frameworks. These include, for example, managing personnel and personnel cost and utilizing human resources data through the global human capital information system, enhancing organizational capabilities through the employee

opinion survey "FIND", and strengthening human capital management and cultivation through the global common ranking system, evaluation system, education system and reward policy.

Additionally, based on the perception that health is not only the foundation of employee's personal life, but an asset of the company and the source of its growth, we encourage and actively support voluntary health promotion among our employees. While working in cooperation with the Human Capital Development Division at each of our group companies, we are promoting these activities on a global basis.

Cultivating Unique Human Capital and Establishing Corporate Culture

The feature of our organizational management is its matrix management of business and functions. Matrix management eliminates rigid organizational management and offers value to changing consumers while enabling a flexible response to society. With the expansion of global business and the additional axes in such as countries and regions, a more sophisticated management style is needed. In terms of human capital development, in conjunction with mid- and long-term business strategies, we are nurturing business leaders and introducing flexible personnel capital for growing business. At our functional axis, we are working toward strengthening the expertise of our human capital and pursuing effectiveness and efficiency of business support. At country and region axes, we are improving the quality of our employment policies as well as strengthening the capabilities of each employee.

In addition to fostering and implementing corporate culture based on the Kao Way, we are



actively working to create an environment that leverages autonomy and diversity of our employees and allows them to work energetically.

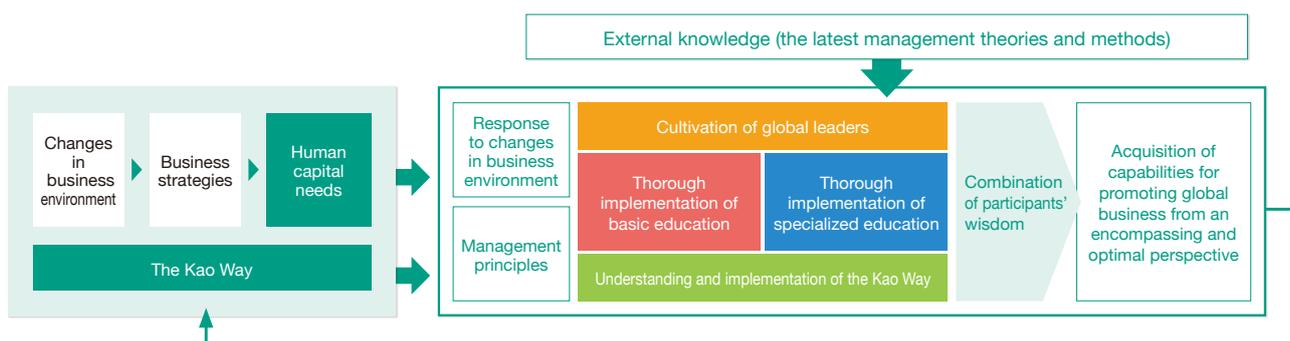
Our cross-organizational activities, based on free and open-minded communication, are an indispensable element in revitalizing our organization, creating opportunities to pursue new challenges and creating a corporate culture for nurturing our employees. Kao is continually promoting innovation and improvement activities through cross-divisional projects.

Furthermore, our senior management and employees are engaged in passionate and open-minded discussions on the present and future state of the company in places for direct dialogue, such as the Kao Forum.

Cultivation of Leaders who Realize the Vision by 2030 and Lead the Way in Changes

In these times of turbulent change, cultivating leaders who promote creative innovation is essential. We have established leadership values as behavior guide required for leadership, and use these values to carry out evaluations, cultivation and promotions. We conduct 360-degree evaluations based on these leadership values as an opportunity for leadership development. Moreover, during training we emphasize opportunities to learn about business environmental changes as well as rules and principals. To this end,

we implement the Global Leadership Development Program, which aims to use the latest external knowledge and fusion of participants' wisdom. And for leaders who will lead the next generation, in collaboration with business schools globally, we aim to provide a place to explore their own nature and deeply consider their own leadership through discussions with leading experts in various fields as well as with business leaders from all over the world, and to create awareness for leading changes.



Compliance Strategy



Taking the recent cases of Kao and other companies, we aim for a more open culture and friendly workplace through our compliance activities.

Yoshihiro Hasebe

Representative Director, Senior Managing Executive Officer
Senior Vice President, Research and Development, Global
Senior Vice President, Strategic Innovative Technology, Global
Responsible for Compliance

Basic Views

Kao regards Integrity, the value inherited from its founders, as the starting point of its compliance activities. We strategically strive to thoroughly ensure compliance mainly by instilling the Kao Business Conduct Guidelines (BCG), which is our code of conduct. We regard fostering compliance awareness by each of our employees as the key to the company's management foundation. Creating

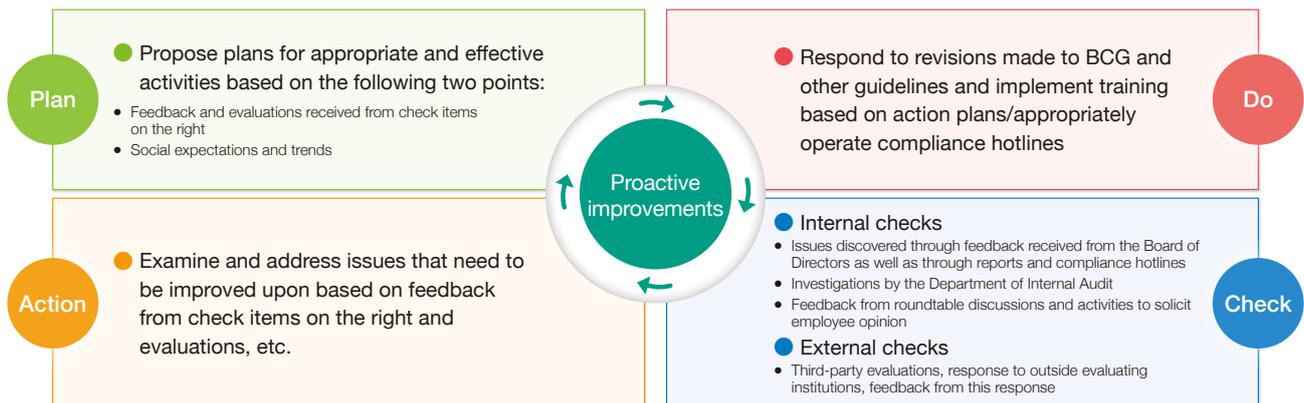
a corporate culture which not only prevents law and regulation violations, but is open enough that offenses are immediately reported and rectified, and a friendly workplace where human capital is maximized, is indispensable for K20 and our vision by 2030. Through these activities, by fostering and establishing compliance awareness, we aim to maintain and make necessary improvements for a sound corporate culture.

Compliance Promotion Structure

We have a group-wide structure that ensures the implementation of PDCA. To begin with, we have established the Compliance Committee, chaired by a Representative Director and made up of representatives from each relevant division and affiliated company. Based on the mid- to long-term and annual activity plans reviewed by the committee, the committee works to implement 1) the establishment and revision of not only BCG,

but internal rules pertaining to anti-bribery, avoiding conflicts of interest, corporate entertainment, gifts, and celebration or condolence packages, 2) education activities inside and outside of Japan and 3) appropriate responses to compliance reports and consultations. Furthermore, it is committed to improving its activities through periodic reports presented to the management, the board of directors and so on.

Kao's Compliance Activities



Working toward Profitable Growth

While focusing on reducing serious compliance risks to achieve K20 success, through cooperation with related departments in each of our group companies, including legal affairs, human capital development,

corporate culture and literature, crisis management and Kao Global Internal Audit, we carry out the following activities.

1. Thorough Permeation Activity based on PDCA Activity

- We regularly hold study sessions, led by external instructors, for our executives.
- Through divisional training lectured by each executive officer, we strive to create compliance awareness not only in each executive, but in each employee.
- We regularly make revisions to respond to changes in international affairs and social environments, along with SDGs and other societal expectations and carefully conduct education and permeation activities aimed at our group employees.

2. Activities Focused on Reducing Serious Compliance Risks

- We focus on preventing compliance violations, through training, making case studies available internally and so on that cover topics for which we have received many reports.
- We promote activities for compliance with laws and regulations by clearly defining which departments are responsible for relevant laws and regulations. Regarding important laws and regulations, we engage in monitoring the implementation status of annual action plans by each responsible

department.

- Our activities to reduce risk include implementing countermeasures against possible business risks regarding social media, data tampering, etc., which have been designated serious compliance risks in a risk survey.
- These activities have been put into practice by the group within Japan and are being developed for enactment by the group as a whole in the future.

3. Monitoring

- We share issues identified from analysis of compliance reports and consultations with the management and corporate auditors every quarter and address them in future activities.
- Through employee opinion and compliance awareness surveys conducted biannually, we collect information on on-site issues and concerns, and plan and implement improvement measures from a compliance perspective.
- We get feedback on our compliance activities and take them into consideration for future activities.
- We use responses to CSR surveys from external evaluation institutions and our business partners as opportunities to confirm whether our activities are appropriate in light of societal expectations, and for deciding on future activities.

Thirteen consecutive years on the “World’s Most Ethical Companies®” list

We regard the World’s Most Ethical Companies® as an important indicator of compliance activity success.

This award is an element of the evaluation process of our executive officers. We regard it as an indicator regarding whether Kao’s compliance activities meet the societal expectations. Taking advantage of our continuous selection for this prestigious award. We will continue to strategically strengthen our compliance activities.



* “World’s Most Ethical Companies®” and “Ethisphere®” names and marks are registered trademarks of Ethisphere LLC.

Risk and Crisis Management Strategy



Strategic management of significant risks and crises enables Kao's sustainable growth.

Shigeru Ueyama

Managing Executive Officer
Senior Vice President, Corporate Strategy, Global

Basic Views

Kao regards the potential negative impact on the achievement of its management targets and business activities as a "risk" and the materialization of such risk as a "crisis." We appropriately manage the various risks and crises that can occur throughout its overall business activities in accordance with the response priority detailed in the Kao Risk and

Crisis Management Policy (1.Protection of human lives 2.Environmental conservation 3.Continuation of operation 4.Protection of assets).

To promote K20 and achieve our vision by 2030, we are stepping up our risk and crisis management through the following measures.

1

Clarifying significant risks to be handled by management and building a corresponding response structure

We designated risks that would particularly have a significant impact on our management and which we need to strengthen our response to, as "corporate risks." Executive officers are responsible for handling these risks.

2

Expanding the scope of target risks

Risk management, which has mainly focused on operational management risks, has been expanded to strategic and reputation risks* from 2015, and we are promoting our responses to them.

* Risks that inflict loss on a company from decline in corporate trust and brand value due to the spread of critical evaluations and rumors against the company.

3

Strengthening response to the materialization of risks

Taking it for granted that risks are revealed, even if they should become apparent, we are strengthening our response structure in times of crisis so that we are able to take prompt and appropriate measures.

In line with the direction of strengthening this structure, we establish main themes each year and conduct related activities. In FY2018, we steadily implemented priority measures aimed at strengthening our practical ability to respond to corporate risks, strengthening management of significant risks at our operations outside Japan, and increasing employees' awareness of risks among other measures to strengthen the Kao Group's overall management of risks and crises.

Risk and Crisis Management System

The Risk and Crisis Management Committee, held 4 times a year, chaired by an executive officer in charge of risk and crisis management, establishes a system and operating plans for risk management. Each

division, subsidiary and affiliated company ascertains and evaluates risk based on these operating plans and conducts risk management by formulating and implementing appropriate countermeasures.

In addition, we have established the Risk and Crisis Management Promotion Council, held once a month as a subordinate organization of the committee, which discusses proposals with the committee and promotes committee decisions.

Furthermore, themes and persons in charge of material risks (corporate risks) to be managed by management are decided through the approval of the Management Committee, based on interviews with management, internal risk surveys (conducted for each division and subsidiary), and others.

Corporate Risks

Anxieties over climate change, natural disasters, water depletion and biodiversity have caused a rise in awareness among consumers and customers and tightened environmental regulations. Additionally, with the development of information and communications technology and the widespread use of smartphones in society in recent years, social media usage has prevailed and e-commerce business has rapidly grown, making great changes in the way people communicate and in their purchasing behaviors. Based on these changes in business environment, we select themes of corporate risk and review them annually. In FY2018, we further strengthened our practical ability to respond to risks by upgrading our

Executive officers who are responsible for corporate risks organize response teams, formulate and implement countermeasures, and strive to comprehensively strengthen risk response. The progress of corporate risk activities is reviewed by the Risk and Crisis Management Committee, and is reported or discussed at the meetings of the Management Committee or the Board of Directors on a regular basis (once a year) as well as in a timely fashion.

response structure and conducting response drills for the following corporate risk themes.

- Large-scale earthquakes and other natural disasters
- Personal information protection
- Pandemics
- Exchange rate fluctuations
- Reputation
- Response to product quality issues
- Change in structures of sales channel
- Risks associated with the use of digital media
- Risks related to business in Asia etc.

Strengthening Significant Risk Management at Overseas Bases

Regarding risk management at the subsidiaries out side Japan, their management is promoting risk management by selecting significant risks and examining countermeasures against them.

In FY2018, we established PDCA cycle for risk

management and strengthened response through coordinating risk management at each of our subsidiaries with activities regarding corporate risks and our responsible department in Japan.

Emerging Risks

In order to contribute to sustainability of the world, we are pushing forward measures on resource circulation, climate change and chemical substances. Due to the ocean plastic waste problem in recent years, global monitoring the use of plastics in products, product containers and packaging have been intensified, and regulations in each country on the use and disposal of plastics have been tightened. Moreover, international

trade conflicts have also developed in other fields including technology, and are now more complex. Accordingly, it is now necessary to pay attention to its impact on business activities not only as a result of increasing raw material costs, but tightening regulations.

We are making more efforts to respond to these changes in terms of both opportunity and risk.

Overview of Kao's Business

Consumer Products Business

Cosmetics Business

In order to respond to the diverse beauty values of each consumer, Kao is refining the characteristics of our brands and delivering skin care and make-up products to consumers all over the world.

Main brands sold in Japan include those centered around Skin care products like *est*, *Sofina iP*, *Curél*, *freeplus*. Brands focusing on make-up products include *RMK*, *SUQQU*, *Primavista*, *COFFRET D'OR*, and *KATE*. Additionally, high-prestige brands like *SENSAI* and *Molton Brown* in Europe, or *freeplus* in China, are widely used by many consumers world wide.



Skin Care and Hair Care Business

Kao delivers Skin care products like facial cleanser, body cleanser, sunscreen, and body lotion as well as Hair care products such as shampoo, conditioner, styling products, Hair coloring products, others to people all over the world so that they are able to express their desired personalities. By these products, we contribute to the realization of truly healthy, beautiful skin and hair. Our major brands include the Skin care products like *Bioré* and *Jergens*, along with Hair care products like *Merit*, *Essential*, *Liese*, *Cape*, *Rerise*, *John Frieda*, and *Success*. Our brands for Hair salons include *Goldwell*, *Oribe* and *KMS*.



Chemical Business

The Chemical Business globally offers a wide range of Chemical products, including Oleo chemicals made from natural fat and oil, Performance chemicals such as surfactants, and Specialty chemicals including toner and toner binders for copies and printers. In addition, with the environment as one of our business themes, we aim to contribute to a sustainable society through two

approaches, “green innovation” and “eco technological solution.” “Green innovation” is developing unique alcohol derivatives, secondary derivatives, as well as biochemicals made by biorefineries as a growth engine. “Eco technological solution” is developing environmentally conscious innovations in ink and solutions in response to the environment, environment-

Human Health Care Business

Kao delivers Sanitary products which are gentle on the skin because they are generated from Kao's unique nonwoven fabrics and processing technology, along with functional beverage promoting new health values and products that support healthier and more comfortable daily lifestyles including toothpaste and bath additives.

Major brands include *Laurier* sanitary napkins, *Merries* baby diapers, *Relief* adult diapers, *Healthya* functional beverage, *Clear Clean*, *PureOra*, and *Deep Clean* toothpastes, toothbrushes and, mouthwash, *Bub* bath additives, and *MegRhythm*, thermo products.



Fabric and Home Care Business

Based on quality and function founded on essential research, Kao creates and markets products in response to changing consumer values and strive to create moments in everyday life that embody a feeling of cleanliness and beauty for as many people as possible. Major brands include laundry detergents *Attack*, *Newbeads* and *Emal*, fabric softener like *Humming* and *Flair Fragrance*, *Haiter* bleach, *CuCute* dishwashing detergent, *Magiclean* household cleaners, *Quickle Wiper* household wipers and *Resesh* clothing fabric and air refresher.



friendly solutions in the fields of electronic materials and infrastructure as a growth engine.

Additionally, these products contribute to enriching the lives of people in a wide range of industrial fields such as household and personal care, pharmaceuticals, information materials, electronics, and civil engineering and construction.



Consumer Products Business



With a sincere approach to our consumers, the creation of products that are truly needed by society enables Kao to create value and achieve profitable growth.

Tomoharu Matsuda

Director, Managing Executive Officer
President, Consumer Products, Global

The Social Situation Surrounding the Kao's Business and Consumer Trends

In FY2018, the Japanese market faced severe heat waves and numerous disasters, but both markets for household and personal care and cosmetics grew year on year, and have remained solid.

Due to uncertainty about the economy's future in light of influence by international trade conflicts, Asia faced a weak currency exchange, which is slowing down its growth rate even though the market is experiencing growth. In the skin and hair care markets in the Americas and Europe, because of the natural and organic boom, the number of products with high unit prices has increased, leading to market growth.

Future concerns over climate change and an aging society will continue to increase, and thus the demand for secure and safe products is growing. Furthermore, aspirations toward sustainability have taken root.

As digitalization advances continue, consumers have come to search for and transmit information themselves, invest aggressively in themselves and aim for self-actualization.

As the use of SNS has spread and communication method leadership has shifted drastically from manufacturers to consumers, there has been a continuing shift toward diversified and high-value-added products.

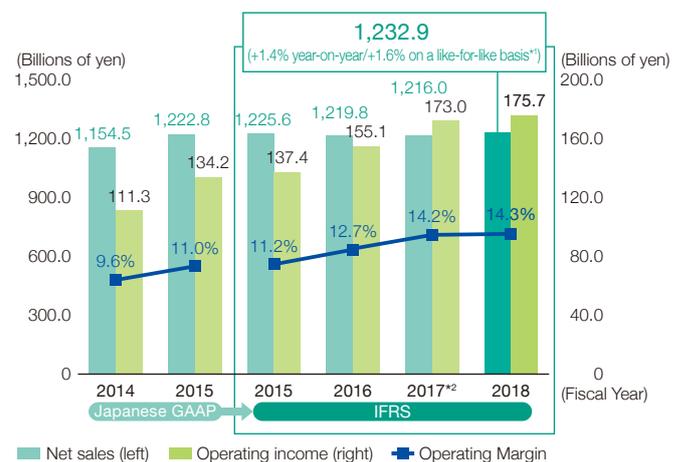
In the purchasing, e-commerce enables consumers to purchase the amount they want whenever they want when searching for products. In physical stores, they have made service function enhancements, such as offering product experiences, cashless shopping and speedy delivery and challenging new sales methods as the speed of consumer purchasing behavior changes continues to accelerate.

Trends in Net Sales and Operating Income

Net Sales	1,232.9 billion yen (+1.4% year-on-year/+1.6% on a like-for-like basis ^{*1})
Operating Income	175.7 billion yen (+2.7 billion yen year-on-year ^{*2})
Operating Margin	14.3% (+0.1 percentage points year-on-year)

^{*1} Like-for-like growth rates exclude the effect of translation of local currencies into Japanese yen.

^{*2} The sales organization of Kao's Consumer Products Business in Japan was reorganized from FY2018. The operating income for FY2017 was restated accordingly.



Opportunities Taking Advantage of Kao's Strengths and Response to Risk

FY2018 Results and Issues

With the new global brand portfolio strategy in the Cosmetics Business, Kao's business direction was set, and with efficient management the year showed much improvement regarding profits.

The Cosmetics Business in Greater China proved to be very strong in sales, and sales of *freeplus*, *Sofina* makeup base and UV care products, as well as *Curél* increased significantly. In addition, due to the severe heat waves in Japan, the Skin care products in Japan grew sharply, mainly led by seasonal products. Much like within Japan, *Bioré UV* has expanded even further in other parts of Asia where needs for products capable of blocking ultraviolet rays are rising.

On the other hand, following the price decline of parallel import goods, sales of *Merries* slowed down in the Chinese e-commerce channels, resulting in a decline in sales in Japan and Asia. Moreover, the Fabric care products faced struggles due to rising raw material costs and drop in retail price.

In FY2018, we actively proposed high-value-added products for small-mass markets. We accelerated our global asset utilization strategy by launching *Rerise*, the innovative next generation of gray hair care, in Japan and elsewhere, along with *Jergens* US hand and body lotion, US *Bioré* facial cleanser and *Guhl* hair care line, which has a long history in Germany.

In the Consumer Products Business in the Americas and Europe, though *Jergens* remained solid, products similar to *Bioré* pore cleansers were launched one after another, affecting sales. In the hair care market, the launch of small-mass brands in last fiscal year was also remarkable, further promoting market segmentation.

In order to strengthen US business in the future, we welcomed the high-prestige brand *Oribe* in salon business domain and Washing Systems, LLC into the group in Professional-use laundry business domain.

Taking Advantage of Kao's Strengths

With Kao's technology innovation capabilities as its core, we are revitalizing our *Yoki-Monozukuri* and making valuable product offerings that are truly useful for consumers.

In 2019, as needs for blocking ultraviolet grow year after year, we launched a revolutionary UV care products that thoroughly protects skin by blocking ultraviolet rays up to the micro level. At the same time, we launched high-value-added UV care products that are able to offer great protection even under high temperature and humid environments in East Asia.

In April 2019, changing our views regarding laundry detergent thus far, we made an innovative proposal named "zero clean", where neither dirt, detergent residue, nor smells would be left on clothing.

Offerings on Social Issues

Based on our ESG activities in 2018, especially regarding plastics waste problems, we are strongly promoting *Monozukuri* from a 4R-focused (reduce, replace, reuse, recycle) perspective. Especially when it comes to the challenge of considerably reducing amount of plastic containers, we offered the *Raku-raku Eco Pack Refill* and a cartridge-type Smart Holder instead of conventional refill containers, and will continue to make more advanced offerings in the future.

We will continue to strengthen ESG management through each brand, and through new marketing efforts to consumers in the digital age, we are working to ensure customer satisfaction with the innovative value created by *Yoki-Monozukuri*.

Consumer Products Business

Cosmetics Business



Toward 2020 and beyond

While offering products that combine our proven quality, made possible by our industry-leading expertise in the area of skin science and beauty-enhancing qualities with emotional and sensory appeal, we aim to build on the distinctive identities of each of our brands and create a global presence for our businesses. We will engage in creation of strong brands by continuing to offer consumers exciting brand experiences. At the same time, Kao will seek out various growth opportunities from the increasing cross-border exchanges of people and information as well as new digital technology to lead cutting-edge business operations.

Offering Solutions to Social Issues

Through beauty, the Cosmetics Business engages in social value creation with the ability to offer moments of joy in daily life. By managing our business with an ESG focus, Kao is contributing to realizing a society in which fulfilling lives are possible for all, throughout the world.

In promoting the use of environmentally conscious, renewable resources in our ingredients, containers, and packaging, the use of renewable energy in production and distribution processes, and waste reduction in the use stage by consumer, Kao makes contributions to the sustainability of the world across the value chain.

Strategy

Establishment of the New Global Portfolio

Kao established the New Global Portfolio, consisting of five businesses in the Cosmetics Business, in May 2018.

For the 11 brands selected as global strategic brands (G11), Kao will actively pursue expansion of the areas in which they are offered. Meanwhile, by also strengthening our travel retail business, Kao will accelerate their development in Japan and elsewhere in Asia and in Europe. Kao has designated eight regional brands (R8) for priority development mainly in Japan and will concentrate investment in them to support their development.

Reorganization of counseling and self-selection brands

In Japan, Kao will drive creation of strong brands with clearly redefined brand positioning. Kao will reorganize its existing brands into counseling

brands, which are sold via beauty consultants who have received specialized education, and self-selection brands, and revise how the brands are produced and sold.



Management system reform

Kao is introducing a brand team system to better respond to the fast pace of change in the business environment. The brand teams will implement the Plan, Do, Check, Action (PDCA) cycle in more adoptable and fast cycles. Authority will be delegated to brand team leaders, who will conduct target marketing at a brisk pace.

Skin Care and Hair Care Business



Toward 2020 and beyond

Kao will develop unique products with high-value-added to drive our global expansion as a highly profitable business. With a sharp focus on consumers' sense of toward beauty and changes in lifestyle habits, Kao will lead market invigoration by accelerating the shift toward delivering high-value-added products and making distinctive and attractive offerings unique to the Kao. Specifically, Kao will launch and develop distinctive, appealing new products that are a half step ahead of the times and engage in marketing activities that stay ahead of consumers' changing purchasing behavior. Kao will also implement reforms to its sales methods to advance its business operations.

Offering Solutions to Social Issues

The impact on the global environment of the excessive use of plastic is a source of concern. Kao has developed the new *Raku-raku Eco Pack Refill* container as well as the *Smart Holder*, which allows consumers to insert a pump directly into *Raku-raku Eco Pack Refill* products and use them, with considerations for both the environment and ease of use. These innovations are designed to reduce plastic use, reduce CO₂ emissions across the lifecycle from production to disposal, and reduce waste of residual product in containers to contribute to the sustainability of society.



Smart Holder

Strategy

Skin Care Business

Kao will strive to expand our business fields with bold moves via development of new technology to address environmental stressors that affect skin, centered on UV care and deodorant, and to meet needs in the field of hygiene in addition to reinforcing our unique positioning and further enhancing our high-value-added offerings in our core businesses based on cleaning.

Hair Care Business

In addition to universal hair care needs, Kao will revitalize our mass brands by offering value propositions for daily life that precisely target the trends of the times, make new value creation offerings that meet personalized needs, and actively



pursue development of high-value-added products. In our hair salon business, Kao intends to accelerate business growth through differentiation based on original Kao technologies and expansion of its brand portfolio.

Business area expansion

The global skin care brands *Bioré* and *Jergens* will evolve to facilitate their global growth as Kao develops their product lines to drive expansion into the countries in which they are not offered. While maintaining the high growth of *Oribe*, which Kao acquired in FY2018, in the premium segment, Kao will achieve synergies between *Goldwell* and *Oribe* to accelerate their global development.



Consumer Products Business

Human Health Care Business



Toward 2020 and beyond

Kao will offer high-value-added products and solutions that support the physical and mental health of men and women of all ages with the goal of strengthening people's vitality and contributing to the creation of healthy lifestyles around the world. Kao will promote product development that focuses on both mental and physical health in our Personal health care products. In our Sanitary products, Kao strives to create products that are gentle on the skin and provide high levels of comfort and peace of mind. In our functional beverage, Kao offers differentiated products with enhanced functional health value.

Offering Solutions to Social Issues

Kao will support people around the world to enjoy improved health through activities focused on mothers and infants in maternity wards, first menstrual education in elementary schools, and enlightenment on adult diapers and oral care in hospitals and nursing home. We will also strive to have communities and our employees enjoy improved health through efforts that partner with government agencies and other companies.



Strategy

Strive to strengthen people's vitality by offering advanced, high-value-added products on an ongoing basis.

With the aim to be the most "gentle on the skin" diaper in the world, *Merries* contributes to the healthy physical and emotional development of babies. We aim to help solve health and wellness challenges at each life stage with products such as *MegRhythm*, which uses original Kao thermo technology, *Healthya* products contributing to wellness for people with

visceral fat and high blood pressure issues and advanced Oral care products contributing to a lifetime of teeth and gum health.

Kao is accelerating our global expansion with evidence-based, high-value-added products offering unique health care propositions. First, led by our *Merries*, *Laurier* and *MegRhythm* brands, Kao intends to offer products with greater customization to fit local health care needs while collaborating with and creating a network of universities, health care professionals and other experts in each country.

Based on consumption patterns and distribution conditions in countries, Kao will work to expand its offered products and the countries where they are offered through strategic use of distributors and growing e-commerce channels.



Fabric and Home Care Business



Toward 2020 and beyond

People's attitude and habits on the housework such as laundry and cleaning are undergoing major transformation due to the greater diversity of living environments and lifestyles as well as other social factors. Countries and regions also have a range of emerging needs as standards of living improve. While staying attuned to what different consumers want in life, we will use the insights we gain from them to take the lead in activities to solve various social issues. By offering products and solutions with high-value-added that enable anyone around the world to live each day in greater cleanliness and comfort, we contribute to realizing greater contentment in daily life.

Offering Solutions to Social Issues

Some countries and regions are projected to face future challenges including falling birth rates, aging populations, and population declines. Kao believes it is its mission to accurately understand consumers' changing attitude and habits in the area of laundry, cleaning, and other housework, and to take the lead in helping to solve various social issues. Kao has to date taken actions to reduce our environmental impact at each stage of the product lifecycle, such as by making products more concentrated so that their containers can be more compact and by increasing the use of refill and replacement products. Kao will contribute to the sustainability of the world with the goal of further reducing the amount of plastic Kao uses.



Strategy

Develop products with high-value-added through *monozukuri* utilizing the results of our Essential Research, and offer solutions that are easy to understand, easy to implement, and otherwise accessible to a wide range of people. Kao will create even more *Kirei** in everyday life to deepen our ties to consumers and contribute to increased market revitalization.



Standards of living vary in different countries and regions, and laundry environments (clothing, water quality, washing methods) and living environments also differ throughout Asia. Kao will apply the value-added hygiene technology we have built up

in Japan in ways that fit each region and country to realize thorough localization and contribute to making consumers' lives better.

The *Attack* brand in the Fabric care products and the *Magiclean* brand in the Home care products broadly earn the support of consumers in Asia, and Kao will develop them into well-loved brands. Kao will also speed up our business development not only in countries where we already have business operations, but also in neighboring new markets in the Asian region and elsewhere.



* The Japanese word "Kirei" means beautiful or clean, not only on the outside but also on the inside.

Sales Strategy



Viewing changing circumstances surrounding our business as growth opportunities, build a new sales structure and sales channels aiming to achieve further growth.

Toshiaki Takeuchi

Representative Director, Senior Managing Executive Officer
Representative Director, President, Kao Group Customer Marketing Co., Ltd.

Sales Structure Innovation

The environment in which the Sales Division operates has experienced major changes over the last several years. In the retail industry, market domination by leading mass retail chains has grown stronger in part through M&A, and more companies are structuring their business operations to be led by the chain headquarters. Consumers' purchasing behavior has also shifted sharply to digital platforms as mobile devices have become ubiquitous. Distribution channels have seen major growth in e-commerce, which is also influencing the store and product strategies of companies in the retail industry. For instance, many companies that operate physical stores have recently been implementing strategies to differentiate themselves from their competitors,

including by developing stores specializing in beauty products and by reinforcing their private brands.

The Sales Division has traditionally covered all areas of Japan using a business model that provides products for store display and attentive follow-up at individual stores of retail companies, and has leveraged this business model in the so-called mass marketing sector. We are now adjusting this business model in light of the changes that are taking place today.

While adapting to these changes and earning the support of consumers, we will build a new business model that enables continuous growth at retailers and at Kao.

E-commerce Strategy

As a new initiative for the e-commerce business, in FY2017, we started having retailers solely engaged in e-commerce carry our Cosmetics products. Going forward, we will actively provide products, services and information desired by e-commerce users, purposefully developing exclusive online product offerings in larger sizes corresponding to internet user preferences to purchase large and bulky items. We will also generate interest online by releasing information before launching products designed for niche markets that are better able to capitalize on the strengths of e-commerce, such as personal Skin care and Hair care products.

We will implement a similar strategy outside Japan as well. The Chinese market, in particular, is undergoing major transformations in consumer purchasing behavior and its distribution structure as e-commerce expands and the economy becomes increasingly cashless. E-commerce is also receiving more attention across Asia. Along with moves by leading Chinese e-commerce platformers to expand their regions of business, companies based in the Americas and Europe, including local companies in various countries are enjoying brisk e-commerce business conditions throughout Asia.

We are building out our sales structure using

the Chinese subsidiary and moving quickly to adapt all of our brands to the e-commerce platform and develop digital marketing activities. We will also fully undertake export sales for China using cross-border e-commerce to provide opportunities to purchase baby diapers with peace of mind. In addition, we are preparing sales structure and products to capitalize on e-commerce growth as a new growth opportunity for local companies in other Asian countries going forward. We will do this by adding new products to our portfolio and by drawing on our e-commerce experience in China and Japan.



Sales Strategy in Physical Store Channels

In addition to e-commerce, we will also further deepen cooperation with retailers whose main business consists of brick-and-mortar stores. The environment in which retailers operate is changing. Viewing these changes as opportunities, we will mobilize the comprehensive strengths and specialized capabilities of the Kao Group to propose campaigns and in-store activities customized to their specific needs. This will serve to resolve issues and attract consumers through collaboration and co-creation with retailers.

Although e-commerce is predicted to continue growing, circumstances in Japan are also said to be more amenable than in other countries to consumers

buying products in brick-and-mortar stores.

Consumers also have needs that are still difficult to satisfy via e-commerce. In the cosmetics field for example, consumers like to purchase products after testing them on their skin and checking the color in person.

There are also more efforts to connect online and in-store experiences instead of keeping them separate, for example campaigns that link in-store promotions with online activities, and pop-up stores that give consumers in-person product and brand experiences. Going forward, we believe that there will be more of these new ways to enhance the consumer experience and optimize business operations that cross boundaries between the real and virtual worlds.

While the means may differ, the principle of listening to consumer feedback remains the same for both our online and in-store sales strategies. We have proposed sales floor designs conducive to product selection and sales methods designed for consumers after gaining a scientifically based understanding of consumer purchasing behavior and preferences. By creating new strengths adapted to the changing market without losing our Consumer-Driven approach, which forms part of our corporate philosophy, we will continue building a business model that allows us to harness synergies between online and brick-and-mortar commerce.



Chemical Business



Maximizing use of our environmentally conscious technologies, we will continue contributing solutions to social issues toward realizing a sustainable society while achieving profitable growth.

Masahiro Katayose

Executive Officer
President, Chemical Business, Global

The Social Circumstances and Customer Trends Affecting Business

In the short term, changes in social circumstances surrounding the Chemical Business include increased trade friction and tighter environmental regulations in China. While fully recognizing both the positive and negative aspects of these changes and monitoring trends, it is essential that we adapt to these changes appropriately.

In the mid- to long-term, various changes in the global environment related to climate change, water resource depletion, and biodiversity, as well as tighter environmental regulations to address them that demand an ESG approach by companies, will take on greater scope globally.

For instance, customers will also want to use sustainable palm oil produced with consideration for biodiversity and human rights. At Kao, we already use RSPO-certified oil for the palm oil and fat used

as raw materials in fatty alcohols we manufacture and use. We are also working to ensure traceability of the oil. In consideration of the impact of using edible materials for industrial purposes, we are also conducting research on manufacturing fatty alcohols using inedible algae as the raw material.

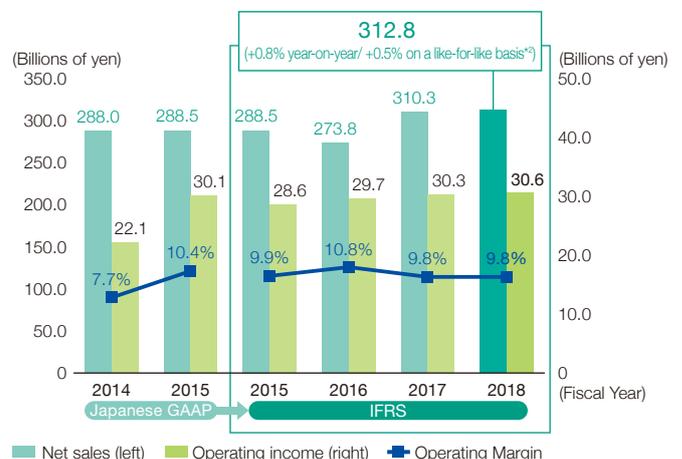
Furthermore, besides our core technology in surface science, we have technologies for catalysts that are key to manufacturing natural fat and oil derivatives, for enzymes used in manufacturing biochemicals, and for polymer design and surface control necessary in solutions offering reduced environmental impact. As such, we believe that heightened environmental awareness in the international society will facilitate expansion of our business.

Trends in Net Sales and Operating Income*1

Net Sales	312.8 billion yen (+0.8% year-on-year/+0.5% on a like-for-like basis*2)
Operating Income	30.6 billion yen (+0.3 billion yen year-on-year)
Operating Margin	9.8% (+0.0 points year-on-year)

*1 Includes intersegment transactions.

*2 Like-for-like growth rates exclude the effect of translation of local currencies into Japanese yen.



Opportunities taking advantage of Kao's strengths and risk response

The Chemical Business possesses one of the largest production scales in the world for natural alcohol, and broadly conducts business focused on natural alcohols and their derivatives as well as a wide range of surfactants for global customers and industries. Meanwhile, we also offer customized products to meet customer needs and resolve issues in the information materials fields, leading examples of which are the toners and toner binders for copiers and printers. The Oleo chemical business, whose main ingredients are natural fats and oils, has become increasingly commodified after the participation of plantation companies. Sharp fluctuations in the price of natural oils and fats have increased the risk of volatility in business profitability to the point

where stable growth is an issue. Keeping in mind our ESG approach, we have therefore diversified the oil and fat raw materials upstream while building up the development and production of distinctive oil derivatives and surfactants downstream. In addition, we will expand the fields of our technical development and use biorefinery technology to conduct new material development using renewable biomass resources as raw materials. And in the information materials and Performance chemicals, we will offer solutions leading to increased customer value after understanding their needs and issues from the standpoint of reducing environmental impact, and develop innovative products together with customers that offer greater customization.

Chemical Business Strategy

Focusing primarily on the environment part of ESG, the Chemical Business seeks to provide solutions to issues that customers and industries are facing by actively investing in technology innovations and M&A. We have achieved profitable growth as a result, and define our basic strategy as contributing to the sustainability of the world. Specifically, we will increase our ratio of environment-related products among total sales from the current 70% to 80% or more using two approaches.

The first approach is Green Innovation. In addition to standard development, we are conducting development to manufacture the world's first green derivatives with new functions as well as world-first biochemical development.

The second approach is Eco Technological Solutions. Using Kao's expertise in surface science, we are focusing on innovative product development offering reduced environmental impact. An example of this is water-based pigment inkjet inks that use our pigment nano dispersion technology. This enables high-resolution printing with water-based ink on plastic film, which in the past had been difficult to realize. Because solvents are not used, the inks produce almost no volatile organic compounds (VOCs),

which also greatly reduce negative impact in work environments. The Consumer Products Business also uses the inks, enabling synergies to be generated between the Chemical and Consumer Products Businesses as well. With environmentally conscious solutions in the electronic materials and infrastructure fields also serving as growth engines, we will increase the presence of the Chemical Business by making contributions to solving issues faced by society, customers, and industries.



Package using water-based pigment inkjet ink



Special Feature

Cosmetics Business Strategy

Creating Strong and Distinctive Brands

The growth of the Cosmetics Business is crucial to achieving K20 and the vision of the Kao Group beyond that. We are undertaking an ongoing series of structural reforms aiming to achieve further growth in Asia and Europe.

The Cosmetics Business has so far been divided into five businesses (Kanebo Cosmetics, Sofina, Curél, e'quipe and Molton Brown), each with independently-run business operations. This has now resulted in 49 different brands at the beginning of 2018, and strategic brand growth has emerged as an issue. Taking a broad view of the business, each brand's role and growth prioritization has become vague, and brands are not able to fully capitalize on the comprehensive strengths of the Kao Group.

Therefore, we have defined a future vision for our brands by creating a new brand portfolio that transects the five businesses. Based on this New Global Portfolio, we will refine the individual brands into strong and distinctive brands while combining our technological expertise and evidence-based *monozukuri* with Kanebo Cosmetics' expertise in beauty-enhancing qualities with emotional and sensory appeal.



New Global Portfolio

The New Global Portfolio concentrates management resources in selected strategic brands to refine them into strong and distinctive brands. We will capture cosmetics demand in rapidly expanding Asian markets, develop the brands to be globally competitive, and build momentum for their global development.

Specifically, we have defined 11 global strategic brands "G11," which include a new brand scheduled for launch in 2020, and 8 regional strategic brands "R8." We will focus on global development for the G11 and development primarily in Japan for the R8.

The G11 were selected for their current brand power and profitability as well as their potential for



global growth. In the challenging prestige segment, accelerated global development of the *SENSAI* brand is major pillar of our strategy. The *SENSAI* brand is available in more than 40 countries and regions, many in Europe, and combines refined Japan's sense of delicate harmony with the latest dermatological science from Japan. The brand epitomizes the future vision for the Cosmetics Business.



The *RMK* and *SUQQU* brands mainly focused on makeup products are achieving success in the prestige market, and developing strong prestige skin care brands will be key to the future growth of the Cosmetics Business. We are planning the groundwork for this major growth by launching *SENSAI* in Asia, continuing the shift to high-value-added offerings for the *est* and *KANEBO* brands and

expanding the countries in which they are offered, and strengthening the travel retail business. Approaches to the rapidly expanding middle class in Asia will be the largest driver of growth. We will leverage the *Curél*, *KATE* and *freeplus* brands to capture this demand.

In our business in Japan, we will revise our existing brand development strategy implemented for individual distribution channels such as department stores, specialty stores, and drugstores and reorganize the brands into the two groups of “counseling brands” purchased after receiving a consultation and “self-selection brands” that consumers select and purchase by themselves. Through this, we will be able to better highlight the distinctive identities of each brand and make them stand out.

In our organization, we have also reformed management system and introduced brand team system for each brand and speed up the decision-making process to quickly respond to the changes of the times and realize a Cosmetics Business with a distinctive global presence.



Special Feature

Advanced Technology Strategy

Digital Transformation

The Strategic Innovative Technology Team (SIT) was established in April 2018 to promote a strategic digital transformation (DX) and to realize business transformation and enhancement of operational efficiency through the effective utilization of cutting-edge technology. The essential value of AI- and IoT-based digital environments is their ability to connect to anyone, anywhere and anytime, at ultra-low cost and ultra-high speed. We will fully utilize

Kao AI (i-Kao), which takes computers equipped with artificial intelligence (AI) capable of learning has them learn from the big data we possess, to realize discontinuous improvement of company productivity (value-added/labor time). The nine target DX fields are management, business, sales, research, supply chain management, logistics, finance, human capital and corporate identity (CI). The following four groups in SIT are implementing Kao DX.

Efficient Utilization Group

Leveraging digital technologies, this group plans and implements strategy and tactics to fundamentally improve efficiency in work processes. Existing data is integrated after formatting to improve its usability, and is converted into high-value-added information using advanced technology.

Information Group

This group proposes strategy and tactics from a comprehensive approach including real-world experiences in addition to using digital technologies to innovate communications with stakeholders (employees, customers, shareholders, society) inside and outside the group. It is forging relationships with and creating a network of outside content partners to develop information content aligned with the strategy and tactics.

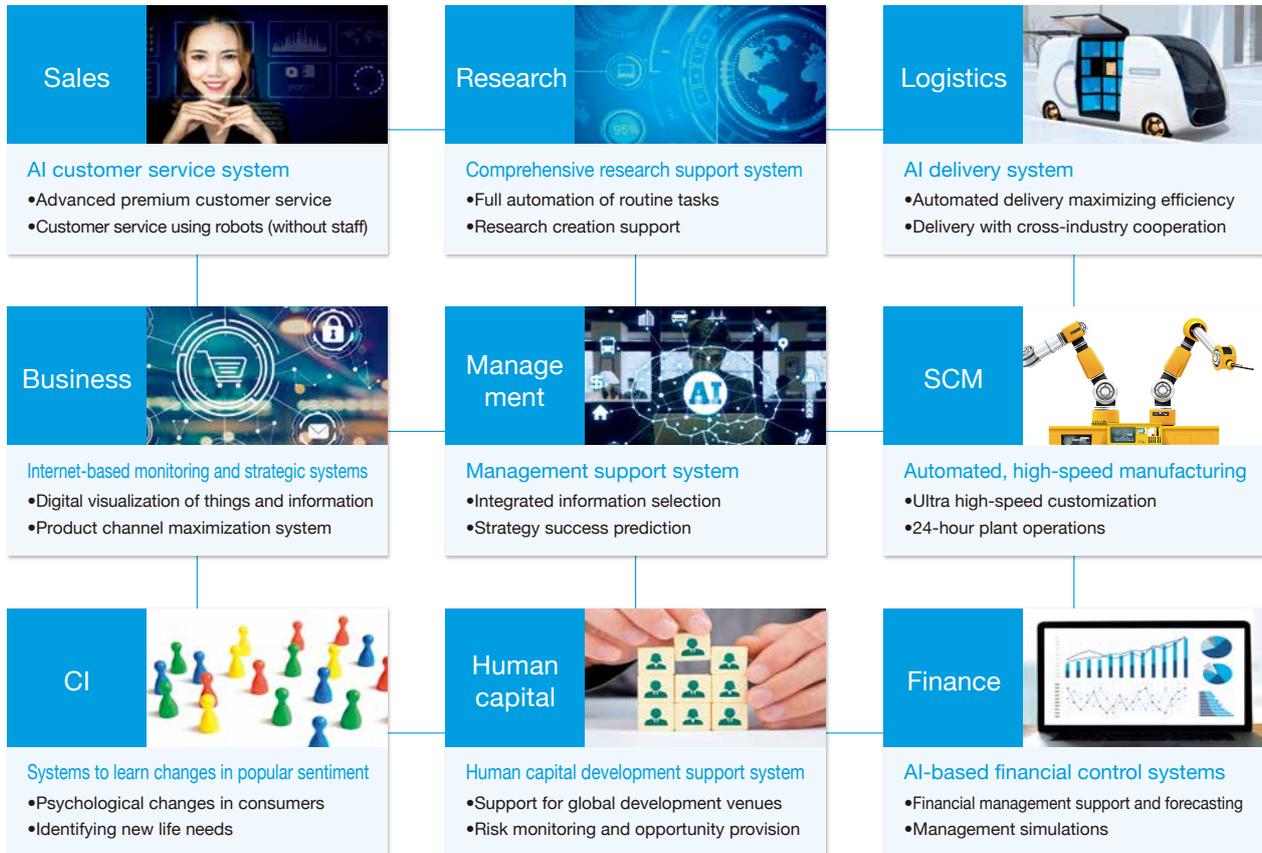
Business and Sales Group

This group uses digital technologies to propose new businesses and new business models, and establishes faster product development processes suited to the business model.

Monitoring

This group is rebuilding our information system platform and introducing and implementing advanced information technology for the digital transformation. This will support the activities of the other three teams. By combining our core value of *Yoki-Monozukuri* with advanced technologies, we aim to enhance the level of our value propositions to all stakeholders and, in the long term, continue being a company where employees find fulfillment in their work and from whom outside groups anticipate good things.

Digital transformation target fields



Specific Examples

Efficient utilization field

In the research field, at the end of last year we began operation of a system that uses AI to conduct searches more efficiently. This system captures not only reports, patents, formulations, and trial results but also unstructured data, namely product information including pharmaceutical affairs and information related to consumer consultations, to retrieve comprehensive information needed for development at one time. This has greatly reduced the time taken by routine tasks and dramatically increased the speed of development.

Related to human capital, we are in the process of building a new integrated system that will centralize a number of currently decentralized systems for performance evaluations, salary calculations, work attendance management and others, allowing them to be viewed and managed in one place. This will make promotions, which in the past have been decided based in part on personal judgments, to be based on objective standards that will better serve to promote diverse human capital.

Information utilization field

The way information has been communicated in the past has been independently managed by business divisions, as has app provision, and cooperation and cross-use by other divisions have at times been lacking. We intend to consolidate our systems for customer relationship management (CRM) that have been implemented individually in this way into one system able to customize information received from and sent to individual stakeholders so that only the information that is truly needed is communicated.

Business and sales fields

Using AI, we will redesign how we conduct market research, product development and sales leveraging online sales and social networks. We will also strengthen our digital advertising not only to communicate product information but also to precisely provide information on research leading up to product launch and details of technical development to the parties that need it. We are developing new virtual communication methods as tools to efficiently communicate product information and offer completely new and appealing product value experiences.



Chapter

4

Performance in FY2018

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Overview of Kao's Business (FY2018)



*1 As of the fiscal year ended December 31, 2018, the following changes have been made.

- The Beauty Care Business has been divided into the Cosmetics Business and the Skin Care and Hair Care Business, changing the four former reportable segments into five.
- The *Curél* derma care brand, which formerly had been classified as Skin care and Hair care products, has been included in the Cosmetics Business, and the *Success* men's products brand, which formerly
- Due to the reorganization of the sales organization of the Consumer Products Business in Japan, operating income for the previous fiscal year has been restated.

*2 Like-for-like growth excluding the effect of currency translation.

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

*4 Net sales and operating income of the Chemical Business include intersegment transactions.

Cosmetics Business

Kao created a new brand portfolio based on the new growth strategy that Kao announced in May 2018, and we promote brand selection and concentration. We have already been working to focus resources on measures targeting key brands and to implement the transition to digital marketing. There has been a particularly noticeable improvement in sales of counseling cosmetics *SUQQU* and *RMK*, and of self-service cosmetics *freepius* and *Curél*. With robust sales in the Asia market and particularly strong sales growth in China, there has been a substantial improvement in the operating income of the Cosmetics Business as a whole. Kao will continue to steadily implement the new growth strategy.

Skin Care and Hair Care Business

In the Skin care products, there was steady growth in sales of *Bioré* in Asia including Japan, and of *Jergens* in the Americas. In the Hair care products, there was robust sales performance by both *Rerise*, Kao's innovative next-generation brand for gray hair, and hair salon brand *Oribe*. However, sales of shampoos and conditioners decreased. Operating income decreased, because the increase in skincare product revenue in Japan and Asia was offset by restructuring costs in the Americas and Europe. We are continuing our efforts to strengthen the product development system in the Americas and Europe, and to drive a shift towards high-value-added products in these regions.

Human Health Care Business

Merries baby diapers, one of our core brands, faced severe competition in China, but market share rose in the consumer segment in Japan. There was also significant growth in Indonesia and Russia. Sales of *Laurier* sanitary napkins and *MegRhythm* thermo products remained strong, and there was also an improvement in the earnings performance of the *Healthya* functional beverage product thanks to structural reforms. Operating income decreased due to rising raw material costs and an increase in depreciation expenses. We aim to achieve a further development of this business by reinvigorating our Baby diaper business and by strengthening e-commerce operations in China.

Fabric and Home Care Business

In the Fabric care products, sales performance of *Attack* laundry detergent, one of our core brands, was robust, and improvements to *Flair Fragrance* contributed to market share growth in the fabric softener segment. In the Home care products, Kao maintained strong sales performance in Japan and in the Asian market as a whole. Kao continued to strengthen its Professional-use products business in international markets, particularly through the acquisition of U.S. company Washing Systems, LLC in FY2018. Operating income decreased due to rising raw material costs including petrochemical materials. In the future, Kao will be working to develop high-value-added products and to develop solutions that enrich people's lives.

Chemical Business

In the Oleo chemicals segment, sales of alcohol derivatives were robust, while the Performance chemicals segment saw an increase in sales that was partly due to sales growth in the infrastructure-related market segment. The Specialty chemicals segment saw an improvement in sales of hard disk related products. Operating income in the Chemical Business rose to a historic high, thanks to increased sales of Oleo chemicals in international markets and a shift towards high-value-added products. In the future, we will be working to increase the share of sales contributed by high-value-added products, which are less affected by fluctuations in raw materials costs, and to strengthen the production of environmentally friendly chemicals that have reduced environmental impacts.

had been classified in the Human Health Care Business, has been included in the Skin Care and Hair Care Business. Net sales and operating income for the previous fiscal year have been restated accordingly.

Key Non-financial Data

Conservation

Materiality	Vision	Items	Results				Targets	Results	Targets	SDGs*7
			2014	2015	2016	2017	2018	2020		
Conservation	Minimize environmental impact from our business activities and contribute to the realization of the One Planet Living vision for environmental sustainability									
	Reduction rate for CO ₂ emissions*1									
	Scope 1 and 2		-28%	-29%	-30%	-31%	-32%	-33%	-35%	
	Consumer products, across the lifecycle		-15%	-17%	-14%	-14%	-	-17%	-	12 13
	Consumer products in Japan, across the lifecycle		-16%	-17%	-16%	-15%	-	-18%	-35%	
	Reduction rate for water usage*1									
	All Kao Group plants and offices		-38%	-43%	-42%	-43%	-39%	-42%	-40%	
	Consumer products, across the lifecycle		-18%	-21%	-17%	-19%	-	-21%	-	6 12
	Consumer products in Japan, during product use		-22%	-24%	-22%	-24%	-	-24%	-30%	
	Reduction rate for waste production*1									
	All Kao Group plants and offices		-27%	-27%	-25%	-25%	-32%	-26%	-33%	12
	Percentage of sales from products displaying the "eco together" logo*2		27%	28%	29%	29%	-	29%	-	6 9 12 13
	Procurement of sustainable palm oil*3		-	PKO*3 Completed traceability to the mills*4	PKO*3 Completed traceability to the mills	PO*3 Completed traceability to the mills to 97%	PO*3 Traceability to the mills	PO*3 Completed traceability to the mills to 98%	Traceability to the plantations	15
	Procurement rate for sustainable paper and pulp*5		-	96%	99%	100%	-	100%	100%	15
	Promote further environmental activities by engaging in environmental communication with society									
Cumulative number of participants in environmental communication*6 (thousands of people)		240	460	690	910	1,200	1,230	1,000	12	
Aim to contribute to the realization of a sustainable society by promoting sound chemical management through Strategic Approach to International Chemicals Management (SAICM) activities										
Number of released safety summaries for Kao priority risk assessment substances		-	7 (Total 7)	3 (Total 10)	3 (Total 13)	3	3 (Total 16)	Total 20	3 12	
Number of released GPS safety summaries for chemical products		47 (Total 77)	12 (Total 89)	18 (Total 107)	18 (Total 125)	16	16 (Total 141)	Total 150	3 12	

*1 Per unit (of sales), relative to FY2005

*2 Consumer products in Japan; sales rate of products that meet the criteria for "eco together" certification

"eco together" certification:

www.kao.com/global/en/sustainability/environment/statement-policy/eco-friendly-products/eco-together-logo/

*3 Progress of activities to trace the palm oil used by the Kao Group back to the plantation; PKO: palm kernel oil, PO: palm oil

*4 As of the end of 2015, we were unable to establish the traceability of some of the derivatives that we had no choice but to purchase from other companies.

*5 Recycled and sustainable paper and pulp and packaging materials used in our products

*6 Cumulative number of participants in educational programs, factory tours, environmental events, etc., since 2014

*7 The goals to which the Kao Group can contribute among 17 Sustainable Development Goals



Community

Materiality	Vision	Items	Results				Targets	Results	Targets	SDGs
			2014	2015	2016	2017	2018	2020		
Health	Improve and prevent obesity and lifestyle diseases by contributing to the creation of a society conducive to a healthy life	Number of participants in health educational programs* ⁸ (thousands of people)	1,610	2,610	2,320	2,880	100	100	—	3
		Number of participants in the educational programs of hygiene habits* ⁹ (thousands of people)	6,120	7,540	7,530	8,290	6,820	7,230	12,000	3 6 12
Aging	Support the lifestyles of the elderly by contributing to the creation of a society conducive to healthy aging, both mentally and physically	Cumulative number of the products improved with Universal Design considerations* ¹⁰	2,066	2,876	3,585	4,666	—	5,658	—	12
		Implementation rate of improvements with Universal Design considerations* ¹⁰	80%	91%	71%	63%	—	56%	—	
		Engage in social activities with local communities to contribute to an improved quality of life								
Partnership with the community		Number of times information was provided to employees regarding volunteer activities	79	71	67	50	75	33	80	17
		Educational activities for external parties provided through transmitted information	71	99	59	60	70	50	80	

*⁸ Number of participants in walking events and events for measuring visceral fat and teeth brushing education; QUPIO users; the QUPIO business was sold in April 2018, and accordingly, QUPIO users are not included.

QUPIO: A program aimed at providing support for health promotion and preventive, lifestyle improvement measures based on knowledge obtained from joint research undertaken with the University of Tokyo using a database of health checkup data for one million people that covers an extended period of time.

*⁹ Number of participants in the educational programs for infant care, hand and hair washing, laundry and cleaning, and menstrual hygiene (including the delivery of educational samples and tools) in Japan and the rest of Asia

*¹⁰ Products improved with Universal Design considerations represent products improved from considerations including accessibility, safety and usability. The implementation rate of improvements is the percentage of products improved with Universal Design considerations among all new and improved product items. The data until 2015 covers Japan, the data for 2016 covers Japan and the Americas, and the data for 2017 covers Japan, the Americas and Europe (not including salons and Molton Brown Ltd.).

Corporate Culture

Materiality	Vision	Items	Results				Targets	Results	Targets	SDGs
			2014	2015	2016	2017	2018	2020		
Integrity	Instillment of Integrity throughout the entire Kao Group	BCG test rate	87.2%	96.4%	97.5%	97.1%	—	—* ¹⁶	100%	16
		Number of serious compliance violations* ¹¹	0	0	0	0	0	0	0	
		Maximize employee potential through Diversity and Inclusion								
Diversity and Inclusion		Percentage of female managers	27.6%	27.5%	25.4%* ¹²	25.1%	—	27.3%	30%* ¹³	5
		Percentage of female managers (Japan)	10.1%	10.4%	13.1%* ¹²	14.6%	—	18.4%	15%* ¹³	5
		Cumulative attendance rate for manager training on diversity and increasing management capabilities	—	—	8.2%	55.7%	100%	94.0%	200%* ¹⁴	10
Employee health and safe workplaces	Improvement of health literacy and safety awareness among employees	Total participants for health promotion programs	—	—	31,885	36,259	—	40,768	35,900	8
		Lost time accident frequency rate* ¹⁵	0.54	0.61	0.67	0.55	0.20	0.77	Less than 0.10	8

*¹¹ Serious compliance violations relating to the Kao Group's operations are internally defined and managed within the Kao Group.

*¹² The definition of "manager" was revised in 2016 following the promotion of integrated Group management.

*¹³ Not established as targets for 2020, but targets to be quickly realized as future milestones

*¹⁴ Cumulative attendance rate for manager training since 2016

*¹⁵ Number of persons dead or seriously injured in occupational accidents per million hours worked (including only accidents involving at least one lost work day and also the loss of a part of the body or a bodily function)

*¹⁶ Not implemented in 2018 due to a review of BCG activities.

Key Financial Data

Historical Data

IFRS	(Millions of yen)			
	Dec. 2018	Dec. 2017	Dec. 2016	Dec. 2015
For the year:				
Economic Value Added (EVA®)	93,530	90,394	73,357	58,557
Net sales	1,508,007	1,489,421	1,457,610	1,474,550
Operating income	207,703	204,791	185,571	167,318
(% of sales)	13.8	13.7	12.7	11.3
Income before income taxes	207,251	204,290	183,430	166,038
Net income	155,331	148,607	127,889	105,952
Net income attributable to owners of the parent	153,698	147,010	126,551	105,196
Net cash flows from operating activities	195,610	185,845	184,307	181,672
Net cash flows from investing activities	(157,895)	(96,146)	(88,639)	(74,124)
Free cash flow	37,715	89,699	95,668	107,548
Net cash flows from financing activities	(108,579)	(53,244)	(95,043)	(20,773)
Capital expenditures	89,097	79,355	89,900	82,848
Depreciation and amortization	60,662	54,508	51,116	57,423
Research and development	57,673	56,703	54,567	52,699
(% of sales)	3.8	3.8	3.7	3.6
Advertising	80,274	89,935	97,437	94,745
(% of sales)	5.3	6.0	6.7	6.4
At year end:				
Total assets	1,460,986	1,427,375	1,338,309	1,311,064
Equity attributable to owners of the parent	822,360	806,381	679,842	680,996
Ratio of equity attributable to owners of the parent to total assets (%)	56.3	56.5	50.8	51.9
Number of employees (people)	33,664	33,560	33,195	32,282
Per share:				
Basic earnings per share (EPS) (yen)	314.25	298.30	253.43	209.82
Annual cash dividends per share (yen)	120.00	110.00	94.00	80.00
Number of issued shares, including treasury shares, at the end of the year (in thousands of shares)	488,700	495,000	504,000	504,000
Share price at the end of the year (yen)	8,154	7,619	5,541	6,255
Key financial ratios:				
Ratio of net income to equity attributable to owners of the parent (ROE) (%)	18.9	19.8	18.6	16.1
Ratio of income before income taxes to total assets (ROA) (%)	14.4	14.8	13.8	13.1

1. The Kao Group adopted IFRS for the fiscal year ended December 31, 2016.

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

3. Capital expenditures include investments in property, plant and equipment, intangible assets, and other non-current assets.

4. EVA® is a registered trademark of Stern Stewart & Co.

Japanese GAAP

For the year:

Net sales

Business segments

Beauty Care Business
Human Health Care Business
Fabric and Home Care Business
Consumer Products Business
Chemical Business
Eliminations

Geographic areas

Japan
Asia
Asia and Oceania
Americas
North America
Europe
Eliminations

Operating income

Net income attributable to owners of the parent

Capital expenditures

Depreciation and amortization

Cash flows

Research and development

(% of sales)

Advertising

(% of sales)

At year end:

Total assets

Net worth

Number of employees (people)

Per share:

Net income per share (EPS) (yen)

Annual cash dividends per share (yen)

Net worth (yen)

Weighted average number of shares outstanding during the period (in thousands of shares)

Key financial ratios:

Return on sales (%)

Return on equity (ROE) (%)

Net worth ratio (%)

(Millions of yen)

Dec. 2015	Dec. 2014	Dec. 2013	Dec. 2012 (Restated)	Dec. 2012	Mar. 2012	Mar. 2011	Mar. 2010
1,471,791	1,401,707	1,315,217	1,220,359	1,012,595	1,216,096	1,186,831	1,184,385
607,692	589,907	570,268	537,814	444,425	537,938	533,514	547,944
280,723	240,077	210,628	189,614	151,977	181,758	175,761	183,151
334,416	324,505	311,023	291,988	236,748	285,645	279,008	276,918
1,222,831	1,154,489	1,091,919	1,019,416	833,150	1,005,341	988,283	1,008,013
288,456	288,022	261,192	236,473	208,071	247,635	231,997	207,834
(39,496)	(40,804)	(37,894)	(35,530)	(28,626)	(36,880)	(33,449)	(31,462)
1,019,016	997,309	959,405	933,767	720,789	925,339	912,443	918,499
281,533	244,903	199,655	160,005	159,857	—	—	—
—	—	—	—	—	173,588	152,361	131,699
137,827	124,216	108,599	89,998	89,998	—	—	—
—	—	—	—	—	85,397	80,328	79,200
154,350	152,056	134,168	110,519	110,519	117,005	112,123	111,158
(120,935)	(116,777)	(86,610)	(73,930)	(68,568)	(85,233)	(70,424)	(56,171)
164,380	133,270	124,656	111,791	101,567	108,590	104,591	94,034
98,862	79,590	64,764	53,107	52,765	52,435	46,738	40,507
83,414	68,484	63,687	—	41,929	47,178	49,101	44,868
73,623	79,660	77,297	—	59,788	79,798	81,380	84,778
135,394	125,436	109,497	—	80,200	101,960	97,028	95,269
51,987	51,739	49,650	—	37,493	48,171	45,516	44,911
3.5	3.7	3.8	—	3.7	4.0	3.8	3.8
94,496	92,410	86,406	—	67,045	82,209	81,082	86,359
6.4	6.6	6.6	—	6.6	6.8	6.8	7.3
1,281,869	1,198,233	1,133,276	—	1,030,347	991,272	1,022,799	1,065,751
675,608	658,232	628,709	—	582,699	538,030	528,895	565,133
33,026	32,707	33,054	—	33,350	34,069	34,743	34,913
197.19	156.46	126.03	101.77	101.12	100.46	87.69	75.57
80.00	70.00	64.00	—	62.00	60.00	58.00	57.00
1,347.29	1,313.63	1,227.54	—	1,116.61	1,031.08	1,013.05	1,054.31
501,352	508,687	513,880	—	521,824	521,936	532,980	536,009
6.7	5.7	4.9	4.4	5.2	4.3	3.9	3.4
14.8	12.4	10.7	9.5	9.4	9.8	8.5	7.3
52.7	54.9	55.5	—	56.6	54.3	51.7	53.0

- Starting from the year ended December 31, 2012, Kao Corporation's fiscal year end was changed from March 31 to December 31. Due to this change, the term of consolidation for the fiscal period ended December 31, 2012 consists of the 9 months from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the 12 months from January to December for subsidiaries whose fiscal year end was December 31.
- December 2012 (restated) represents figures for the year from January 1 to December 31, 2012, for Kao Group companies whose fiscal year end was previously March 31.
- As of January 2014, certain changes were made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe.
- Australia and New Zealand, which had been included in Asia and Oceania until the fiscal year ended March 31, 2012, were reclassified under Americas from the fiscal period ended December 31, 2012.
- Net sales by segment include inter-segment sales and transfers.
- Net sales by geographic area including inter-region sales are classified based on the location of Kao Group companies.
- The Kao Group has adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and other standards. Accordingly, "net income" has been changed to "net income attributable to owners of the parent."
- Cash flows are defined as net income attributable to owners of the parent plus depreciation and amortization minus cash dividends.
- Net income per share is computed based on the weighted average number of shares outstanding during the respective years.
- Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.
- Net worth is equity, excluding non-controlling interests and stock acquisition rights.

Key Financial Data

Consolidated Statement of Financial Position

(Millions of yen)

	Current fiscal year (As of December 31, 2018)	Previous fiscal year (As of December 31, 2017)
Assets		
Current assets		
Cash and cash equivalents	265,978	343,076
Trade and other receivables	223,102	216,507
Inventories	197,571	183,921
Other financial assets	15,146	14,914
Income tax receivables	2,066	2,653
Other current assets	22,449	28,162
Subtotal	726,312	789,233
Non-current assets held for sale	—	147
Total current assets	726,312	789,380
Non-current assets		
Property, plant and equipment	418,935	395,800
Goodwill	180,286	138,735
Intangible assets	46,549	16,829
Investments accounted for using the equity method	7,931	7,682
Other financial assets	23,540	27,345
Deferred tax assets	49,158	40,918
Other non-current assets	8,275	10,686
Total non-current assets	734,674	637,995
Total assets	1,460,986	1,427,375
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	225,560	224,893
Bonds and borrowings	40,488	25,262
Other financial liabilities	6,880	7,739
Income tax payables	34,198	34,255
Provisions	2,873	4,822
Contract liabilities	18,387	17,296
Other current liabilities	102,452	107,404
Total current liabilities	430,838	421,671
Non-current liabilities		
Bonds and borrowings	80,339	95,322
Other financial liabilities	9,506	10,091
Retirement benefit liabilities	84,552	64,694
Provisions	12,175	10,617
Deferred tax liabilities	2,864	435
Other non-current liabilities	5,203	5,181
Total non-current liabilities	194,639	186,340
Total liabilities	625,477	608,011
Equity		
Share capital	85,424	85,424
Capital surplus	108,245	107,980
Treasury shares	(11,282)	(9,593)
Other components of equity	(30,029)	(12,315)
Retained earnings	670,002	634,885
Equity attributable to owners of the parent	822,360	806,381
Non-controlling interests	13,149	12,983
Total equity	835,509	819,364
Total liabilities and equity	1,460,986	1,427,375

Consolidated Statement of Income

(Millions of yen)

	Current fiscal year (January 1, 2018–December 31, 2018)	Previous fiscal year (January 1, 2017–December 31, 2017)
Net sales	1,508,007	1,489,421
Cost of sales	(853,989)	(834,107)
Gross profit	654,018	655,314
Selling, general and administrative expenses	(444,845)	(452,666)
Other operating income	14,288	14,909
Other operating expenses	(15,758)	(12,766)
Operating income	207,703	204,791
Financial income	1,717	1,452
Financial expenses	(4,251)	(3,960)
Share of profit in investments accounted for using the equity method	2,082	2,007
Income before income taxes	207,251	204,290
Income taxes	(51,920)	(55,683)
Net income	155,331	148,607
Attributable to:		
Owners of the parent	153,698	147,010
Non-controlling interests	1,633	1,597
Net income	155,331	148,607
Earnings per share		
Basic earnings per share (Yen)	314.25	298.30
Diluted earnings per share (Yen)	314.12	298.09

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Current fiscal year (January 1, 2018–December 31, 2018)	Previous fiscal year (January 1, 2017–December 31, 2017)
Net income	155,331	148,607
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(2)	1,166
Remeasurements of defined benefit plans	(15,524)	21,260
Share of other comprehensive income of investments accounted for using the equity method	(345)	317
Total of items that will not be reclassified to profit or loss	(15,871)	22,743
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(16,140)	8,541
Share of other comprehensive income of investments accounted for using the equity method	(73)	(1)
Total of items that may be reclassified subsequently to profit or loss	(16,213)	8,540
Other comprehensive income, net of taxes	(32,084)	31,283
Comprehensive income	123,247	179,890
Comprehensive income attributable to:		
Owners of the parent	122,324	178,020
Non-controlling interests	923	1,870
Comprehensive income	123,247	179,890

Key Financial Data

Consolidated Statement of Changes in Equity

Current fiscal year (from January 1, 2018 to December 31, 2018)

(Millions of yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges
January 1, 2018	85,424	107,980	(9,593)	731	(21,540)	4
Net income	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	(15,492)	(5)
Comprehensive income	—	—	—	—	(15,492)	(5)
Disposal of treasury shares	—	(99)	48,345	(167)	—	—
Purchase of treasury shares	—	—	(50,034)	—	—	—
Share-based payment transactions	—	364	—	—	—	—
Dividends	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(18)	—	—
Other increase (decrease)	—	—	—	—	—	—
Total transactions with the owners	—	265	(1,689)	(185)	—	—
December 31, 2018	85,424	108,245	(11,282)	546	(37,032)	(1)

(Millions of yen)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Other components of equity			Retained earnings	Total			
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total					
January 1, 2018	8,490	—	(12,315)	634,885	806,381	12,983	819,364	
Net income	—	—	—	153,698	153,698	1,633	155,331	
Other comprehensive income	(338)	(15,539)	(31,374)	—	(31,374)	(710)	(32,084)	
Comprehensive income	(338)	(15,539)	(31,374)	153,698	122,324	923	123,247	
Disposal of treasury shares	—	—	(167)	(47,961)	118	—	118	
Purchase of treasury shares	—	—	—	—	(50,034)	—	(50,034)	
Share-based payment transactions	—	—	—	—	364	—	364	
Dividends	—	—	—	(56,793)	(56,793)	(746)	(57,539)	
Transfer from other components of equity to retained earnings	(1,694)	15,539	13,827	(13,827)	—	—	—	
Other increase (decrease)	—	—	—	—	—	(11)	(11)	
Total transactions with the owners	(1,694)	15,539	13,660	(118,581)	(106,345)	(757)	(107,102)	
December 31, 2018	6,458	—	(30,029)	670,002	822,360	13,149	835,509	

Previous fiscal year (from January 1, 2017 to December 31, 2017)

(Millions of yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges
January 1, 2017	85,424	107,648	(57,124)	911	(29,761)	4
Net income	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	8,221	(0)
Comprehensive income	—	—	—	—	8,221	(0)
Disposal of treasury shares	—	—	49,373	(165)	—	—
Purchase of treasury shares	—	—	(1,842)	—	—	—
Share-based payment transactions	—	332	—	—	—	—
Dividends	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary	—	(0)	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(15)	—	—
Other increase (decrease)	—	—	—	—	—	—
Total transactions with the owners	—	332	47,531	(180)	—	—
December 31, 2017	85,424	107,980	(9,593)	731	(21,540)	4

(Millions of yen)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Other components of equity			Retained earnings	Total			
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total					
January 1, 2017	7,025	—	(21,821)	565,715	679,842	11,621	691,463	
Net income	—	—	—	147,010	147,010	1,597	148,607	
Other comprehensive income	1,472	21,317	31,010	—	31,010	273	31,283	
Comprehensive income	1,472	21,317	31,010	147,010	178,020	1,870	179,890	
Disposal of treasury shares	—	—	(165)	(48,914)	294	—	294	
Purchase of treasury shares	—	—	—	—	(1,842)	—	(1,842)	
Share-based payment transactions	—	—	—	—	332	—	332	
Dividends	—	—	—	(50,265)	(50,265)	(369)	(50,634)	
Changes in the ownership interest in a subsidiary	—	—	—	—	(0)	—	(0)	
Transfer from other components of equity to retained earnings	(7)	(21,317)	(21,339)	21,339	—	—	—	
Other increase (decrease)	—	—	—	—	—	(139)	(139)	
Total transactions with the owners	(7)	(21,317)	(21,504)	(77,840)	(51,481)	(508)	(51,989)	
December 31, 2017	8,490	—	(12,315)	634,885	806,381	12,983	819,364	

Key Financial Data

Consolidated Statement of Cash Flows

(Millions of yen)

	Current fiscal year (January 1, 2018–December 31, 2018)	Previous fiscal year (January 1, 2017–December 31, 2017)
Cash flows from operating activities		
Income before income taxes	207,251	204,290
Depreciation and amortization	60,662	54,508
Interest and dividend income	(1,578)	(1,295)
Interest expense	1,256	1,339
Share of profit in investments accounted for using the equity method	(2,082)	(2,007)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	4,531	3,111
(Increase) decrease in trade and other receivables	(12,591)	(3,464)
(Increase) decrease in inventories	(15,677)	(15,349)
Increase (decrease) in trade and other payables	3,951	14,637
Increase (decrease) in retirement benefit liabilities	20,740	(30,886)
Other	(21,437)	14,476
Subtotal	245,026	239,360
Interest received	1,273	1,069
Dividends received	2,312	2,047
Interest paid	(1,293)	(1,329)
Income taxes paid	(51,708)	(55,302)
Net cash flows from operating activities	195,610	185,845
Cash flows from investing activities		
Payments into time deposits	(26,768)	(26,673)
Proceeds from withdrawal of time deposits	26,987	25,349
Purchase of property, plant and equipment	(80,295)	(83,663)
Purchase of intangible assets	(7,703)	(6,273)
Payments for business combinations	(73,915)	(2,906)
Other	3,799	(1,980)
Net cash flows from investing activities	(157,895)	(96,146)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	230	(59)
Proceeds from long-term borrowings	—	30,000
Repayments of long-term borrowings	(67)	(30,090)
Proceeds from issuance of bonds	25,060	—
Redemption of bonds	(24,939)	—
Purchase of treasury shares	(50,035)	(1,842)
Dividends paid to owners of the parent	(56,838)	(50,299)
Dividends paid to non-controlling interests	(745)	(369)
Other	(1,245)	(585)
Net cash flows from financing activities	(108,579)	(53,244)
Net increase (decrease) in cash and cash equivalents	(70,864)	36,455
Cash and cash equivalents at the beginning of the year	343,076	303,026
Effect of exchange rate changes on cash and cash equivalents	(6,234)	3,595
Cash and cash equivalents at the end of the year	265,978	343,076

Corporate Information

(As of December 31, 2018)

Corporate Overview

Company: Kao Corporation

Head Office: 14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo 103-8210, Japan

Founded: June 19, 1887

Incorporated: May 21, 1940

Share Capital: 85,424,265,916 yen

Employees: 7,655 (Number of employees in Kao Group consolidated companies: 33,664)

Subsidiaries: 117 (of which 96 are overseas subsidiaries)

Affiliated Companies: 6

Accounting Auditor: Deloitte Touche Tohmatsu LLC

Stock Information

Stock Listing: Tokyo Stock Exchange

Ticker Symbol Number: 4452

Total Number of Authorized Shares: 1,000,000,000 shares

Total Number of Issued Shares: 488,700,000 shares

Number of Shareholders: 58,077

Administrator of Shareholder Register: Sumitomo Mitsui Trust Bank, Limited

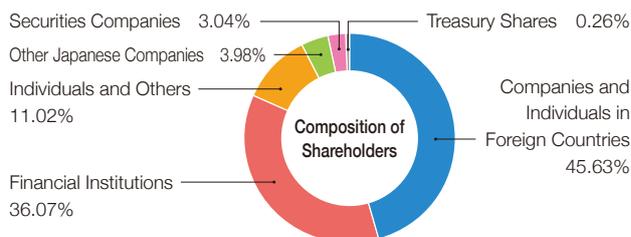
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan

Status of Top 10 Shareholders

Name of Shareholder	Number of Shares (thousand shares)	Shareholding (percentage)
The Master Trust Bank of Japan, Ltd. (Trust Account)	47,134	9.67
Japan Trustee Services Bank, Ltd. (Trust Account)	33,953	6.97
JPMorgan Chase Bank 380055	13,664	2.80
State Street Bank and Trust Company 505223	13,340	2.74
Japan Trustee Services Bank, Ltd. (Trust Account 5)	9,531	1.96
Japan Trustee Services Bank, Ltd. (Trust Account 7)	9,072	1.86
State Street Bank West Client – Treaty 505234	8,374	1.72
JPMorgan Chase Bank 385151	7,717	1.58
SSBTC CLIENT OMNIBUS ACCOUNT	7,388	1.52
State Street Bank and Trust Company 505001	6,915	1.42

Notes:

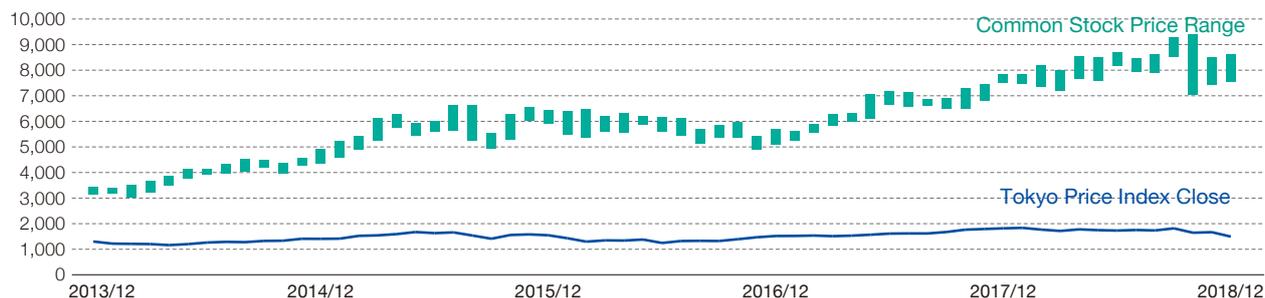
- The number of shares in the above list may include the number of shares held in trusts or subject to share administration.
- The ratio of shareholding for each shareholder above has been calculated based on the number of issued shares excluding treasury shares.



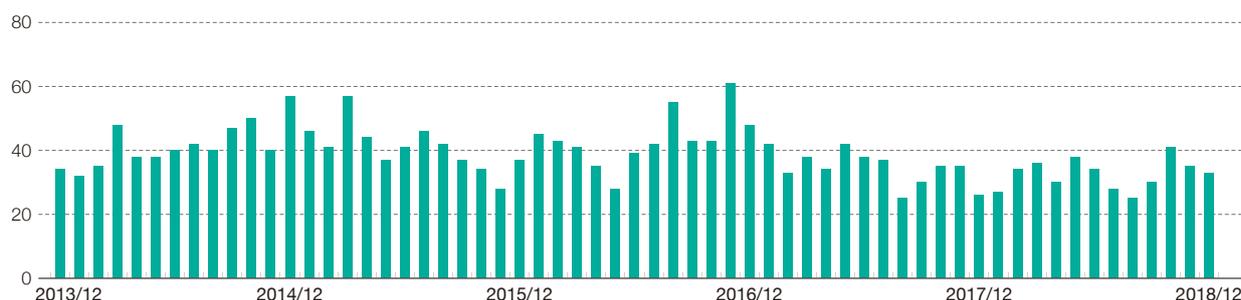
6,300,000 treasury shares were cancelled on September 14, 2018.

Share Price Range and Trading Volume (Tokyo Stock Exchange)

Share Price Range (Yen)



Monthly Trading Volume (Million shares)







Chapter

5

Corporate Governance

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



Sonosuke Kadonaga

Outside Director
Chairman of the Board of Directors

Kao Corporation's Board of Directors expends considerable time engaging in lively discussion, not only of those issues that the Board is statutorily required to discuss, but also of other important issues relating to the company's management. During Board meetings, we always keep in mind the Kao Way, which is the corporate philosophy, and our vision of making Kao a company with a global presence by 2030. Every year, during the first Board meeting of the year, the President and CEO, who is the top of execution, outlines the key issues that the company will be addressing over the coming year. In addition, during monthly Board meetings, the Inside Directors who also serve as Executive Officers give monthly reports, and both the Inside and the Outside Directors and Audit & Supervisory Board Members express their opinions freely and on a diverse range of topics, from their own individual perspective, based on their examination of the current situation. In this way, the Board is able to engage in constructive discussion.

I have now been serving as Chairman of the Board for five years. In my role as Chairman, I have striven to encourage other Directors to express their opinions fully. I also sit in on Management Committee. This enables me to develop a more in-depth understanding of the background to the issues discussed during Board meetings, and I believe that sharing this

knowledge with the other Outside Directors can contribute toward fostering lively discussion.

The topics discussed at each Board meeting are selected in advance by careful discussion in meetings between myself and the President and CEO. In this way, we are able to ensure that important matters are discussed in a timely and appropriate manner. Every Board meeting also includes a report on the matters discussed at meetings of the Management Committee. This system enables Outside Directors to understand the matters that have not been tabled for discussion during Board meetings. I also ensure close communication with Outside Directors and Outside Audit & Supervisory Board Members, and the company has taken steps to help Outside Directors familiarize themselves with the current state of company management, for example by providing opportunities for them to participate in overseas visits, so that they can see for themselves how Kao's overseas facilities are operating. I believe that this series of activities has helped to realize effective oversight, and has ensured solid performance by the Board of Directors.

As I see it, the willingness of the four Inside Directors, who are responsible for implementing executive management, to actively incorporate the external opinions into the company's management is the most important foundation for the successful functioning of Kao's Board of Directors. The objective external viewpoint is important both in terms of oversight and in terms of provide encouragement for decision making by management. While there may be some companies that view meetings of the Board of Directors as just a necessary procedure and consider it as a cost, I am firmly convinced that the approach adopted at Kao enables the company to get real benefit from its Board. The attitude toward the Board taken by the executive officers at Kao is not something that has been imposed from outside, and is not something that could be duplicated simply by copying the external structure of the arrangements. In the future, even if Kao's governance structure changes, as long as this kind of attitude can be retained, then it will not matter if changes have to be made to the formal aspects of the Board of Directors—such as the number of Board members, the composition of the Board, and the procedures adopted by the Board—in line with changes in the external environment.

In February 2018, Kao announced that it would be working to strengthen its Environmental, Social and Governance (ESG) activities. A new ESG Division was established in July 2018, and in October 2018 the company announced Our Philosophy & Action on Plastic Packaging. In November 2018, Kao held its first ever Technology Innovation Session. This presentation was the first time that we had showcased the Essential Research which is a key source of strength for Kao, rather than showcasing specific new products. Activities of this type represent a concrete putting into practice by Kao's management of the vision of the Kao Group Mid-term Plan K20, "Transforming Ourselves to Drive Change," and they embody the commitment and enthusiasm displayed by the top of execution. I believe that the source of energy that underpins Kao's corporate governance is the values that constitute the fundamental elements such as Continuous Innovation and Integrity in the Kao Way permeating through every aspect of the company's management.



Osamu Shinobe

Outside Director

Since taking up the position of Outside Director at Kao in March 2018, I have attended every meeting of the Board of Directors, and have been struck by the fact that these meetings are characterized by very open discussion, supported by the provision of a great deal of information. As an Outside Director, I have adopted a perspective that recognizes the need to provide management with a supportive prod when necessary. That is to say, when the company's executive body has a proposal which they wish to implement, I aim to be thinking about how such body can best put that idea into practice. At the same time, with regard to the supervisory function, I believe that maintaining close communication with the Audit & Supervisory Board Members and adopting a perspective compatible with the Kao Way and the concept of Integrity that constitutes Kao's corporate philosophy is appropriate for safeguarding shareholders' interests.

Outside Directors need to maintain some degree of distance from the Internal Directors, but at the same time, if the Outside Directors do not understand the internal happenings at Kao, then effective discussions will not be possible. I feel that the way Kao provides Outside Directors with opportunities to learn important information — for example by arranging visits to Kao facilities and introducing and explaining the research areas that Kao is working on — helps to invigorate the Board of Directors. In the future, I believe that arranging more opportunities for Outside Directors to exchange views with Executive Officers and general managers would provide beneficial mutual stimulus.



Toraki Inoue

Outside Audit & Supervisory Board Member

I feel that the overall effectiveness of Kao's Board of Directors is very high. The Board itself is working to realize the Innovation that is a key element in the Kao Way. For example, when I asked out why the executive officer responsible for Accounting and Finance had not been attending Board meetings, the company immediately arranged for such executive officer to attend Board meetings on an ongoing basis. Similarly, when I said that I wanted to know more specifically what kind of discussions took place at meetings of the Management Committee, the company arranged straight away for me to sit in on a Management Committee meeting. I was very impressed by the speed with which the company responded to my requests. Given that Kao has been working steadily to realize the Kao Group Mid-term Plan K20, I believe that it is important for the company to continue to put in place a framework that ensures that not only good news, but also bad news, is presented to the Board. The Board is able to engage in lively discussions due to Board composition — Kao's Board of Directors includes Outside Directors who have a wealth of diverse experience — and the fact that the company's Inside Directors have adopted a stance of proactively canvassing the Outside Directors' views. However, if important issues are not submitted to the Board in the first place, they cannot be discussed. With this in mind, I believe that it is very important for the company's Executive Officers and general managers to familiarize themselves well with recent changes in public attitudes toward internal controls and compliance.

Corporate Governance Initiatives

Basic Approach to Corporate Governance

Our vision by 2030 is to make Kao a company with a global presence. In addition to financial strategies and initiatives including financial results, non-financial strategies and initiatives should be strengthened. It is important that the fruits from those strategies and initiatives are used as investments for sustainable growth. Kao (hereinafter, referred “the Company”) has announced that it recognizes ESG initiatives as an investment for the future, not as a cost, and is promoting them. The Company considers good corporate governance as a prerequisite and a driving force for strongly promoting the achievement of such a goal. The Company’s basic stance on measures related to corporate governance is to set

up and operate a management structure and an internal control system, timely implement necessary measures and achieve accountability so that the Company can swiftly respond to changes, realize efficient management that is sound, fair and highly transparent, and continuously enhance corporate value. The Company views accomplishing such tasks as one of its most important management issues. The Company has been actively engaging in activities to listen to stakeholders’ voices and based on input from stakeholders and social trends, it conducts reviews of its corporate governance and implements the necessary measures and improvements, as needed, in an appropriate manner.

Corporate Governance Reform

Also as for corporate governance, since the early stage Kao has practiced Continuous Innovation, which is one of Values of the Kao Way. To respond to changes in the business environment as well as social

demands, the Company has pursued the creation of the most optimal structure. The Company will continue to work on governance reform.

	Governance Structure and System	Compensation for Executives
1999	<ul style="list-style-type: none"> Introduced EVA® as a management indicator 	<ul style="list-style-type: none"> Short-term incentives: Introduced an EVA® performance-based bonus
2000	<ul style="list-style-type: none"> Established the Advisory Committee (an advisory body for the Board including two outside members) 	
2001	<ul style="list-style-type: none"> Increased the number of Outside Audit & Supervisory Board Members from one to two 	<ul style="list-style-type: none"> Mid- to long-term incentives: Introduced a stock option plan Abolished retirement benefits
2002	<ul style="list-style-type: none"> Introduced Outside Director system (the Advisory Committee was dissolved) Introduced the Executive Officer system 	
2003	<ul style="list-style-type: none"> Established the Committee for the Examination of Nominees for Chairman of the Board and the President and Chief Executive Officer Appointed the president and lower positions as Executive Officers Established the Department of Internal Audit 	<ul style="list-style-type: none"> Established the Compensation Advisory Committee
2006	<ul style="list-style-type: none"> Commenced meetings to exchange opinions between Representative Directors and Audit & Supervisory Board Members Established the Internal Control Committee 	<ul style="list-style-type: none"> Mid- to long-term incentives: Introduced share remuneration type stock options Short-term incentives: Introduced EVA®/sales and ordinary income indicator
2010	<ul style="list-style-type: none"> Established Standards for Independent of Outside Directors /Outside Audit & Supervisory Board Members Established the Sustainability Committee 	
2012	<ul style="list-style-type: none"> Increased the number of Outside Directors from two to three Reduced the number of Directors from 15 to 10 Shortened Directors’ term of office to one year 	
2013	<ul style="list-style-type: none"> Increased the number of Outside Audit & Supervisory Board Members from two to three Delegation agreement with Executive Officers 	
2014	<ul style="list-style-type: none"> Established the Committee for the Examination of Nominees for Directors and Executive Officers (Abolished the Committee for the Examination of Nominees for Chairman of the Board and the President and Chief Executive Officer) Reduced the number of Inside Directors to 3, equal to the number of Outside Directors Appointed an Outside Director as the Chairman of the Board 	
2015	<ul style="list-style-type: none"> Established the Committee for Examination of Nominees for Directors (Abolished the Committee for the Examination of Nominees for the Directors and Executive Officers) Commenced evaluation of the effectiveness of the Board of Directors 	
2016	<ul style="list-style-type: none"> Commenced evaluation of the effectiveness of the Audit & Supervisory Board Increased the number of Inside Directors from three to four 	<ul style="list-style-type: none"> Revised Outside Director compensation system to not linked to business performance
2017		<ul style="list-style-type: none"> Mid- to long-term incentives: Performance-based share incentive plan (non-financial indicators included)
2018	<ul style="list-style-type: none"> Commenced regular meetings to exchange opinions between Audit & Supervisory Board Members and Outside Directors Established the ESG committee (the Sustainability Committee was dissolved) 	
2019	<ul style="list-style-type: none"> Commenced evaluation of the effectiveness of the Committee for the Examination of Nominees for Directors Commenced evaluation of the effectiveness of the Compensation Advisory Committee Established the External ESG Advisory Board Increased the number of Outside Directors from three to four 	<ul style="list-style-type: none"> Revised the remuneration limit for Audit & Supervisory Board Members

Corporate Governance Structure

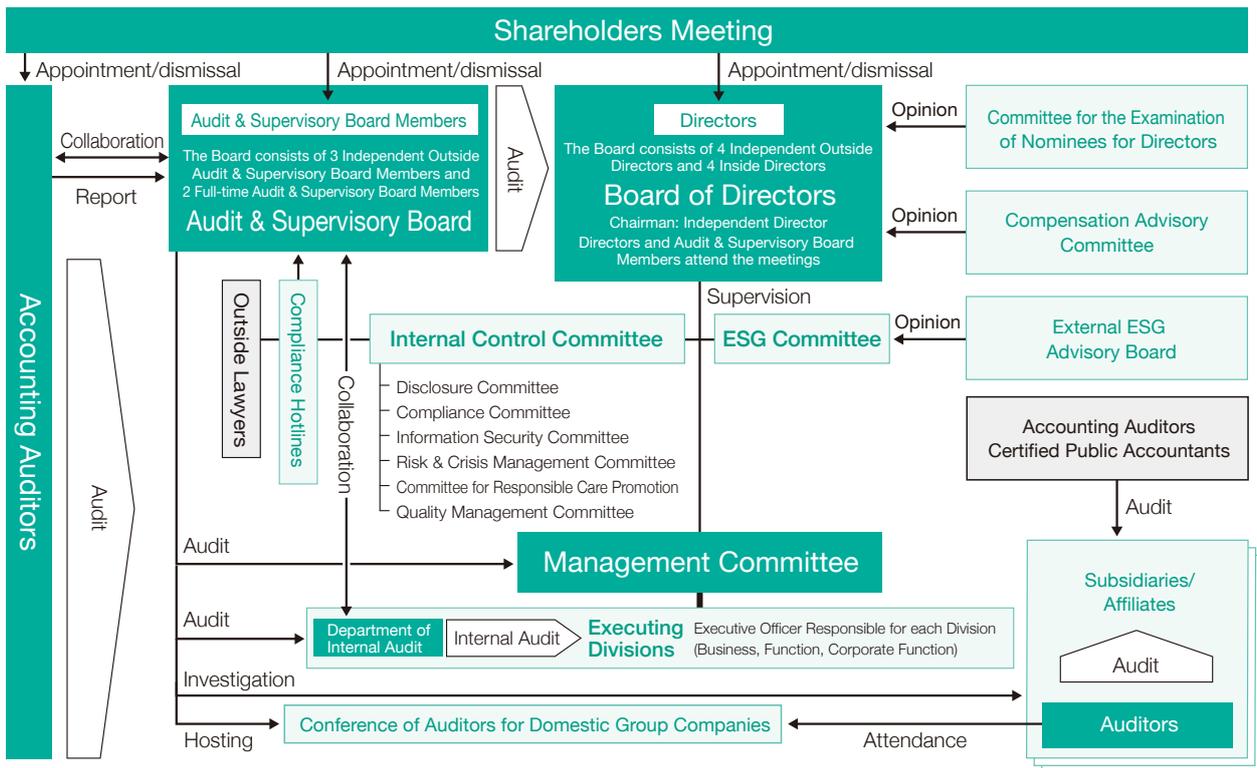
Kao has chosen to be a company with an Audit & Supervisory Board. In company with the Audit and Supervisory Board, the Audit and Supervisory Board Members are obligated to participate in meetings of the Board of Directors, but they do not possess voting rights. Therefore, the Company believes that this allows them to objectively audit the decisions made by the Board of Directors and business execution of individual Directors without being bound by past decisions or adopting a conservative approach.

To better ensure transparency and fairness in the processes for determining Director appointment and compensation, the Company has voluntarily established the Committee for the Examination of Nominees for Directors, composed solely of Outside Directors and Outside Audit & Supervisory Board Members and the Compensation Advisory Committee, made up of Outside Directors, Outside Audit & Supervisory Board

Members and Representative Directors.

The Board of Directors maintains a high level of objectivity, with four of its eight members being Outside Directors. At the same time, the Board of Directors is supported by organizations that oversee auditing duties as well as compensation and nomination examinations, thereby realizing a high level of effectiveness. In these ways, the Company has put into place a framework for supervising and auditing its management.

Also, the Company has introduced an Executive Officer system that appoints Executive Officer as chief executive of each division, thereby promoting the separation of supervisory functions and execution functions. In addition, through largely delegating execution authority to the Management Committee, the Company works to speed up the decision-making and execution process.



ESG Committee

To gain the support and trust of all its stakeholders, as a company with a global presence, this committee discusses and determines the direction of Kao's activities pertaining to ESG, aiming to contribute to sustainable development of Kao Group and society.

Internal Control Committee

This committee discusses and determines the direction of the entire Group's internal control systems to ensure the accuracy of financial reporting and achieve cross-organizational integration of functions pertaining to internal control including information disclosure, compliance, information security, risk and crisis management, promotion of responsible care, and quality management with the objective of improving the quality of business operations.

Management Committee

This committee, which is mainly composed of members with the position of Managing Executive Officer or higher who have experience in business execution as persons responsible for core businesses and functions, makes decisions concerning the execution of mid- to long-term direction and strategies that the Board of Directors deliberates on and determines. Delegating wide-ranging authority to the Management Committee, Kao works to speed up its decision-making and execution process.

Corporate Governance Initiatives

Directors and Board of Directors

Kao's Board of Directors has secured a balance among knowledge, experience, and skills and a sufficient level of diversity to appropriately carry out the formulation of business strategies and other measures as well as supervise specific business execution. Outside Directors are nominated with emphasis on diverse experience, their knowledge, and a high level of insight obtained from such experience that cannot be obtained from Inside Directors alone. Examples include global experience, experience in managing a company that provides products and services in a different industry from that of Kao, consulting or academic experience, as well as expertise and a high level of insight. In addition, the Company makes efforts to enhance the effectiveness of discussions at Board of Directors' meetings in such ways as having Executive Officers in charge of accounting and human affairs who are not Directors attend these meetings.

At these Board of Director meetings, to promote sustainable growth and mid- to long-term increases in corporate value, the Company deliberates from various perspectives, including evaluation of risks and determine the mid- to long-term direction of management toward business strategies. Furthermore, the Company supervise and audit whether or not its business

strategies are being executed appropriately in various ways through reports by the Inside Directors on the status of progress of these strategies and issues preventing their achievement and response to such issues, as well as through evaluation and audits by Outside Directors and Outside Audit & Supervisory Board Members from their diverse perspectives. Moreover, the Company draws sharp distinctions between risks through the establishment of internal control and risk control systems. In these ways, the Company has created an environment that allows for a more proactive style of management.

Major Topics Discussed by the Board of Directors in 2018

First Quarter	<ul style="list-style-type: none"> • Evaluation of effectiveness of the Board of Directors • Revision of Information Disclosure Guidelines • Department of Internal Audit's audit reports • Audit and Supervisory Board Members' audit report summaries
Second Quarter	<ul style="list-style-type: none"> • Reviewing Mid-term Plan progress • Compliance Committee reports • Cosmetics Business strategies • M&A strategies • ESG strategies • Current status of Research & Development and topics
Third Quarter	<ul style="list-style-type: none"> • Department of Internal Audit's audit reports • New Business Project progress reports • Employee satisfaction survey results
Fourth Quarter	<ul style="list-style-type: none"> • Baby diaper business strategies • Internal Control Committee reports • Cross- shareholdings status

In addition to the above, each month Kao has business execution reports from Directors currently serving as Executive Officers, as well as on matters discussed during the Management Committee from Executive Officers in charge.

Evaluation of the Effectiveness of the Board of Directors

On an annual basis, an evaluation is conducted at a meeting of the Board of Directors in order to make improvements aimed at enhancing the effectiveness of the Board of Directors. Based on the idea that the roles and responsibilities of the Board of Directors must be shared by the entire Board of Directors, all members who participates in meetings of the Board

of Directors, including Audit & Supervisory Board Members, to express opinions, discuss and conduct evaluation. Also in FY2018 evaluation, the Company conducted a survey in advance, and the Board of Directors discussed and exchanged their opinions regarding the shared results.

Evaluation of efforts to address issues pointed out in FY2017

• Human resource strategies

Although a certain level of discussions were held, further discussion is necessary for utilizing global human resources, which is the premise of promoting business globalization, as well as for finding and fostering diverse human resources to respond to diversification of values with recent technological innovations, and to changes in purchasing behaviors and distribution structures.

• Business strategies including non-financial activities (ESG activities)

Top management itself takes initiative, showing an attitude

for leading the way in change. Sufficient discussions have been held, and properly implemented, including newly establishment of ESG Division.

• Maintenance and oversight of Kao's internal control system to comply with laws and regulations

There was some improvement in the speed of reporting important matters to the Board of Directors. By delivering information early on, the Company can minimize serious matters and enable discussion of the response by the Kao Group as a whole. Kao needs to continue to enhance both a system maintenance and operation.

Future issues for the Board of Directors

- Scouting and developing diverse human resources is an ongoing issue. Based on Kao's Vision 10 years from now, further discussion is needed regarding target human resources, who can realize the Vision, and how to find and foster such human resources.
- Interactive communication between the Board of Directors and execution side should stimulate the Board of

Directors, and apply discussion at the Board of Director to business execution.

- Regarding internal control to comply with laws and regulations, supervision must be carried out to constantly review not only its system maintenance, but its operation that enables the system to function effectively.

Besides the above, the Company evaluates viewpoints that are emphasized in the corporate governance code, such as constructive discussion on the company's overall direction, and the structure and management status of the Board of Directors. Furthermore, in FY2018, the effectiveness of the Committee for the Examination of Nominees for Directors and the Compensation Advisory Committee was evaluated.

Audit & Supervisory Board Members and Audit & Supervisory Board

For Outside Audit & Supervisory Board Members, Kao has appointed certified public accountants and a lawyer to its Audit & Supervisory Board, all of whom have a high level of professionalism and insight in accounting, finance and law necessary for auditing, abundant experience which can take advantage of them, and high ethical standards as a professional. Supported by internal information gathering by the well-informed full-time Auditor & Supervisory Board Members, Audit & Supervisory Board Members are able to engage in objective and meaningful discussion and perform highly effective audits.

Audit & Supervisory Board Members hold regular meetings with the Representative Directors to exchange opinions and attend important meetings,

such as meetings of the Board of Directors and the Management Committee. In addition to meetings with the auditors of domestic group companies, the Audit & Supervisory Board Members hold meetings with internal auditing divisions and the Accounting Auditor to exchange information as well as conduct interviews with each internal division and Kao's subsidiaries on a regular basis and additionally when necessary. Furthermore, at meetings of the Board of Directors, the Audit & Supervisory Board Members provide observations related to the legality and validity of the Company's business and accounting practices. The Audit & Supervisory Board also offers a wide range of advice to Kao's management, including advice on strategic management direction.

Evaluation of the Effectiveness of the Audit & Supervisory Board

Once a year, all the Audit & Supervisory Board Members express their views, discuss, and conduct evaluations while referring to a list of focal points prepared in advance at the Audit & Supervisory Board. The results are incorporated into next fiscal year's audit plan, and its summary is reported and shared at the Board of Directors.

Evaluation of Current Status

- The Audit & Supervisory Board has been effectively managed. Through Full-time Audit & Supervisory Board Members and staff correspondence, Outside Audit & Supervisory Board Members were able to work effectively.
- Began meetings to exchange opinions between Outside Directors. The Audit & Supervisory Board will continue to

share its awareness of issues and further strengthen its management supervisory functions.

- Held exchange information meetings with full-time auditors of major domestic subsidiaries. Mutually shared concerns, which led to the development of a relationship in which information can be conveyed to the headquarters.
- Established effective communication channels with the accounting auditors and the Department of Internal Audit, and strengthened the tripartite auditing framework.

Future Issues for the Audit & Supervisory Board

- By enhancing the opportunities for interactive communication between the Audit & Supervisory Board Members of the head office and subsidiaries through the Conference of Auditors for Domestic Group Companies and other measures.

Corporate Governance Initiatives

Committee for the Examination of Nominees for Directors and Compensation Advisory Committee

To ensure fairness and transparency in decisions regarding the appointment and compensation of Kao's Directors and Executive Officers, Kao has voluntarily established the Committee for the Examination of Nominees for Directors and the Compensation Advisory Committee.

The Committee for the Examination of Nominees for Directors comprises all Outside Directors and Outside Audit & Supervisory Board Members. The committee submits its opinions regarding nominees for company President and Directors to the Board of Directors. In addition to examining the appropriateness of Director nominees, it discusses size, composition and diversity of the Board of Directors as well as the qualities required for the President and Chief Executive Officer and members of the Board. The committee also reports the results of these examinations and deliberations to the Board of Directors.

The Compensation Advisory Committee is composed of all Outside Directors, all Outside Audit & Supervisory Board Members and all Representative Directors. The committee offers its opinions to the Board of Directors on compensation systems and levels of Directors and Executive Officers.

Furthermore, in FY2018, the effectiveness of both committees was evaluated at the Board of Directors.

Attending Members for Meetings of the Board of Directors, the Audit & Supervisory Board and Other Committees

Classification	Name	Meeting of the Board of Directors	Audit & Supervisory Board Meeting	Committee for the Examination of Nominees for Directors	Compensation Advisory Committee
Members of the Board	Michitaka Sawada	○			○
	Toshiaki Takeuchi	○			○
	Yoshihiro Hasebe	○			○
	Tomoharu Matsuda	○			
	Sonosuke Kadonaga	Outside/Independent	◎		◎
	Osamu Shinobe	Outside/Independent	○		○
	Chiaki Mukai	Outside/Independent	○		○
	Nobuhide Hayashi	Outside/Independent	○		○
Audit & Supervisory Board Members	Katsuya Fujii	○	◎		
	Hideko Aoki	○	○		
	Toraki Inoue	Outside/Independent	○	○	○
	Hideki Amano	Outside/Independent	○	○	○
	Nobuhiro Oka	Outside/Independent	○	○	○

◎ Indicates Chairman of the Board or specified committee
○ Indicates attending member

Independence of Outside Directors and Outside Audit & Supervisory Board Members

Kao uses a structure with the appropriate number of independent Outside Directors and independent Outside Audit & Supervisory Board Members who satisfy the "Standards for Independence of Outside Directors/Outside Audit & Supervisory Board Members of Kao Corporation" (hereinafter, the "Standards for Independence") to provide a check on the status of deliberations of the Board of Directors from an objective perspective independent of Kao's management so that its judgment is not biased toward the logic of persons inside the company. Four of the Company's eight Directors and three of its five Audit & Supervisory Board Members and fulfill the Standards for Independence. Under its current structure, The Board of Directors

has appointed an independent Outside Director as Chairman of the Board of Directors to further enhance the Board's neutrality and independence. To promote discussions from diverse perspectives, independent Outside Directors and independent Outside Audit & Supervisory Board Members hold meetings on their own initiative at intermissions of meetings of the Board of Directors or by setting up separate opportunities to exchange information and share awareness of issues related to the Company's management and the activities of the Board of Directors, the development of future management, and other matters.

More details on the Standards for Independence are listed below.
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance_002.pdf

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

The compensation system for the Directors, Audit & Supervisory Board Members and Executive Officers is aimed at (1) securing and retaining diverse and excellent personnel to establish and improve competitive advantages; (2) promoting prioritized measures for lasting increases in corporate value; and (3) sharing interests in common with shareholders.

Starting in FY2017, Kao has introduced a performance-based share incentive plan for its Directors (excluding Outside Directors) and Executive Officers. Serving as a highly transparent and objective remuneration system that is closely linked to company performance, the performance-based share incentive plan aims to increase awareness of contributing to improvement in the company's financial performance and corporate value over the mid- to long-term.

(i) Base salary

A base salary is paid as fixed monthly remuneration in an amount determined in accordance with duties as a Director or Executive Officer and rank.

(ii) Bonus as short-term incentive compensation

When the full bonus payment rate is paid, the bonus is set at 50% of the base salary for the President and Chief Executive Officer, 40% of the base salary for Executive Officers with titles other than the Chief Executive Officer and 30% of the base salary for other Executive Officers. The bonus payment rate is set within a range of 0% to 200%, depending on the degree of achievement of targets for net sales and income (gross profit less selling, general and administrative expenses), the degree of their improvement from the previous year, and the degree of achievement of the target for Economic Value Added (EVA®), the Company's main management indicator, which takes into account capital cost.

(iii) Performance-based share incentive plan as long-term incentive compensation

Within a four-year target period from FY2017 to FY2020, the period covered by the current mid-term plan, Kao shares, etc., are delivered to Directors, other than Outside Directors and Executive Officers in accordance with the degree of mid-term plan target achievements and non-financial target achievements from an ESG perspective. This incentive plan has two parts: a performance-based part in which Kao shares, etc., are delivered in accordance with the degree of mid-term plan target achievement, and a fixed part

in which a certain number of Kao shares, etc., are delivered annually. The performance-based part of the system provides an impetus for achieving the targets of our mid-term plan and increases the link between performance and compensation over the mid- to long term. The fixed part of the system strengthens shared interest with Kao's shareholders by promoting the holding of shares by Directors (excluding Outside Directors) and Executive Officers. The performance-based part accounts for 70% of shares delivered, with the fixed part accounting for 30%. When the performance-based coefficient for the performance-based part of the system is at 100%, the yearly share remuneration amount is set at nearly 40% to 50% of the base salary.

The compensation system and compensation standards for Directors and Executive Officers are examined by the Compensation Advisory Committee and determined by the Board of Directors. Compensation for independent Outside Directors consists solely of a fixed monthly salary. Compensation of Audit & Supervisory Board Members also consists solely of a fixed monthly salary, and compensation standards are determined at meetings of the Audit & Supervisory Board. Compensation standards for Directors, Executive Officers, and Audit & Supervisory Board Members are determined each year after ascertaining standards at other major manufacturers of similar size, industry category, and business type to Kao using officer compensation survey data from an external survey organization. The Company does not have a system for providing retirement benefits to Directors or Audit & Supervisory Board Members.

Compensation Paid to Directors and Audit & Supervisory Board Members in FY2018

Directors: eight, 480 million yen
(Outside Directors: four, 60 million yen)

Audit & Supervisory Board Members: six, 78 million yen
(Outside Audit & Supervisory Board Members: four, 30 million yen)

Note: The above numbers of Directors/Audit & Supervisory Board Members include one Outside Director and one Outside Audit & Supervisory Board Member who resigned at the conclusion of the 112th Annual General Meeting of Shareholders held on March 23, 2018.

The aggregate amount of remuneration of Directors

Michitaka Sawada (Director)

Aggregate amount of remuneration: 165 million yen

Base salary: 82 million yen

Bonus: 48 million yen

Performance-based remuneration: 35 million yen

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

Directors and Audit & Supervisory Board Members

(As of March 26, 2019)



Nobuhiro Oka

Outside Audit & Supervisory
Board Member

Toraki Inoue

Outside Audit & Supervisory
Board Member

Hideko Aoki

Full-time Audit & Supervisory
Board Member

Yoshihiro Hasebe

Representative Director
Senior Managing Executive Officer

Nobuhide Hayashi

Outside Director

Sonosuke Kadonaga

Outside Director
Chairman of the Board of Directors

Michitaka Sawada

Representative Director
President and Chief Executive Officer



Tomoharu Matsuda

Director
Managing Executive Officer

Katsuya Fujii

Full-time Audit & Supervisory
Board Member

Hideki Amano

Outside Audit & Supervisory
Board Member

Toshiaki Takeuchi

Representative Director
Senior Managing Executive Officer

Osamu Shinobe

Outside Director

Chiaki Mukai

Outside Director

Directors and Audit & Supervisory Board Members

(As of March 26, 2019)

Board of Directors

Michitaka Sawada

Representative Director
President and Chief Executive Officer

Apr. 1981	Joined Kao Corporation
Jul. 2003	Vice President, Sanitary Products Research Laboratories
Jun. 2006	Vice President, Global Research & Development, Executive Officer
Apr. 2007	Vice President, Global Research & Development, Human Health Care
Jun. 2008	Member of the Board, Executive Officer
Jun. 2012	Representative Director, President and Chief Executive Officer (current)
Jan. 2014	Responsible for Product Quality Management
Jan. 2016	Responsible for Corporate Strategy
Jan. 2019	Responsible for Human Capital Development (current)

Toshiaki Takeuchi

Representative Director
Senior Managing Executive Officer

Apr. 1981	Joined Kao Corporation
Mar. 2006	Vice President, Kyushu Office, Kao Customer Marketing Co., Ltd.
Mar. 2009	Vice President, Corporate Planning, Kao Customer Marketing Co., Ltd.
Mar. 2010	Member of the Board, Executive Officer, Kao Customer Marketing Co., Ltd.
May 2011	Member of the Board, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd.
May 2012	Representative Director, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd.
Jun. 2012	Executive Officer
Apr. 2013	Representative Director, Executive Vice President, Kao Customer Marketing Co., Ltd.
Mar. 2014	Managing Executive Officer, Kao Corporation; President, Kao Customer Marketing Co., Ltd.; Member of the Board, Representative Director
Jan. 2016	Representative Director, President, Kao Group Customer Marketing Co., Ltd. (current); Representative Director, Senior Managing Executive Officer (current)

Yoshihiro Hasebe

Representative Director
Senior Managing Executive Officer

Apr. 1990	Joined Kao Corporation
Mar. 2008	Director, Research and Development – Fabric and Home Care Research – Household Products Research
Mar. 2011	Vice President, Research and Development – Beauty Research – Hair Beauty Research
Jan. 2014	Vice President, Research and Development – Core Technology; Vice President, Research and Development – Eco-Innovation Research
Mar. 2014	Executive Officer, Vice President, Research and Development
Mar. 2015	Senior Vice President, Research and Development, Global (current)
Jan. 2016	Managing Executive Officer
Mar. 2016	Director, Managing Executive Officer
Jan. 2018	Director, Senior Managing Executive Officer Responsible for Corporate Functions
Apr. 2018	Senior Vice President, Strategic Innovative Technology, Global (current)
Jan. 2019	Responsible for Compliance (current)
Mar. 2019	Representative Director, Senior Managing Executive Officer (current)

Tomoharu Matsuda

Director
Managing Executive Officer

Apr. 1983	Joined Kao Corporation
Jan. 2008	President, Kao (Hong Kong) Ltd.
Mar. 2010	Chairman and General Manager, Kao (Taiwan) Corporation
Mar. 2013	President, Beauty Care, Skin Care and Hair Care Business Unit, Global
Mar. 2014	Executive Officer
Jan. 2018	Managing Executive Officer; Senior Vice President, Consumer Products Business, Global; Responsible for Skin Care and Hair Care Business (current); Responsible for Human Health Care Business (current); Responsible for Fabric and Home Care Business (current); Chairman of the Board, Oribe Hair Care, LLC (current)
Mar. 2019	Director, Managing Executive Officer (current); President, Consumer Products, Global (current); Responsible for Kao Professional Salon Services (current)

Sonosuke Kadonaga

Outside Director
Chairman of the Board of Directors

	President, Intrinsic Vice President, Business Breakthrough University
Apr. 1976	Joined Chiyoda Corporation
Jun. 1981	Masters in Science in Chemical Engineering, Massachusetts Institute of Technology, School of Engineering, U.S.A.
Aug. 1986	Joined McKinsey & Company, Inc., Japan
Jul. 2009	President, Intrinsic (current)
Jun. 2012	Member of the Board, Kao Corporation (current)
Mar. 2014	Chairman of the Board of Directors (current)

Osamu Shinobe

Outside Director

	Vice Chairman, ANA HOLDINGS INC.
Apr. 1976	Joined ALL NIPPON AIRWAYS CO., LTD. (Now ANA HOLDINGS INC.)
Jun. 2007	Member of the Board, ALL NIPPON AIRWAYS CO., LTD.
Apr. 2009	Executive Vice President (<i>jomu torishimariyaku</i>), ALL NIPPON AIRWAYS CO., LTD.
Jun. 2011	Executive Vice President (<i>senmu torishimariyaku</i>), ALL NIPPON AIRWAYS CO., LTD.
Apr. 2012	Senior Executive Vice President, ALL NIPPON AIRWAYS CO., LTD.
Apr. 2013	Member of the Board, ANA HOLDINGS INC.; President & Chief Executive Officer, ALL NIPPON AIRWAYS CO., LTD.
Apr. 2017	Member of the Board, Vice Chairman, ANA HOLDINGS INC. (current)
Mar. 2018	Member of the Board, Kao Corporation (current)

Chiaki Mukai

Outside Director

	Vice President, Tokyo University of Science; Astronaut; Medical Doctor; M.D., Ph.D.; Outside Director, Fujitsu Limited
Apr. 1977	Staff, Department of Surgery, Keio University School of Medicine
Aug. 1985	Payload Specialist, the National Space Development Agency of Japan (currently, the Japan Aerospace Exploration Agency; JAXA)
Jun. 1987	Visiting Scientist, Division of Cardiovascular Physiology, Space Biomedical Research Institute, NASA Johnson Space Center
Sep. 1992	Research Instructor of the Department of Surgery, Baylor College of Medicine
Apr. 2000	Visiting Professor of the Department of Surgery, Keio University School of Medicine (current)
Apr. 2015	Vice president, Tokyo University of Science; Senior Technical Advisor, JAXA
Jan. 2016	Corporate Executive Fellow, Kao Corporation
Apr. 2016	Vice president, Tokyo University of Science (current)
Mar. 2019	Member of the Board, Kao Corporation (current)

Nobuhide Hayashi

Outside Director

	Director, Chairman, Mizuho Bank, Ltd.
Apr. 1980	Joined The Fuji Bank, Limited
Apr. 2007	Executive Officer – Corporate Banking Division #13, Mizuho Corporate Bank, Ltd.
Apr. 2009	Managing Executive Officer – Japanese Business Promotion, Mizuho Corporate Bank, Ltd.
Jun. 2011	Managing Director and Head of International Banking Unit, Mizuho Corporate Bank, Ltd.
Apr. 2013	Deputy President & Deputy President Executive Officer, Mizuho Financial Group Inc.; Deputy President & Deputy President Executive Officer, Mizuho Bank, Ltd.; Representative Director, Deputy President, Mizuho Corporate Bank, Ltd.
Jun. 2013	Director, Deputy President, Mizuho Financial Group Inc.
Jul. 2013	Representative Director, Deputy President, Mizuho Bank, Ltd.
Apr. 2014	Representative Director, President and CEO, Mizuho Bank, Ltd.
Apr. 2017	Director, Chairman, Mizuho Bank, Ltd. (current)
Mar. 2019	Member of the Board, Kao Corporation (current)

Audit & Supervisory Board Members

Katsuya Fujii

Full-time Audit & Supervisory Board Member

Apr. 1980	Joined Kao Corporation
Mar. 2003	IR Group Leader, Accounting and Finance
Jun. 2011	Financial Director, Accounting and Finance
Mar. 2017	Full-time Audit & Supervisory Board Member (current)

Hideko Aoki

Full-time Audit & Supervisory Board Member

Aug. 1982	Joined Kao Corporation
Apr. 2007	Vice President, Product Quality Management Division
Jun. 2010	Executive Officer
Mar. 2015	Managing Executive Officer
Jan. 2019	Responsible for Special Missions
Mar. 2019	Full-time Audit & Supervisory Board Member (current)

Toraki Inoue

Outside Audit & Supervisory Board Member

	Certified Public Accountant Representative Director, President, Accounting Advisory Co., Ltd.
Oct. 1980	Joined Arthur Andersen LLP
Dec. 1985	Registered as a certified public accountant
Jun. 1987	Resided at New York Office of Arthur Andersen
Oct. 1995	National Partner of Arthur Andersen
Oct. 1997	Worldwide Partner of Arthur Andersen
Jul. 1999	Representative Partner, Asahi & Co.
Jul. 2008	Toraki Inoue Certified Public Accountant Office (current)
Jun. 2010	Representative Director, President, Accounting Advisory Co., Ltd. (current)
Mar. 2016	Audit & Supervisory Board Member, Kao Corporation (current)

Hideki Amano

Outside Audit & Supervisory Board Member

	Certified Public Accountant
Apr. 1976	Joined Arthur Andersen LLP
Sep. 1980	Registered as a certified public accountant
Jun. 1984	Transferred to Arthur Andersen Düsseldorf Office, Germany
Sep. 1992	Senior Partner, Inoue Saito Eiwa Audit Corporation
Sep. 2011	Vice-Chairman of the Board of Trustees, KPMG AZSA LLC; member of KPMG Global Audit Steering Group
Jul. 2015	Executive Senior Partner, KPMG AZSA LLC
Mar. 2017	Audit & Supervisory Board Member, Kao Corporation (current)

Nobuhiro Oka

Outside Audit & Supervisory Board Member

	Attorney-at-Law Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd.
Apr. 1993	Registered as an attorney-at-law, joined Kajitani Law Offices
Apr. 1997	Representative Partner, Takekawa & Oka Law Office
Oct. 2004	Representative Partner, Takekawa, Oka & Yoshino Law Office
Apr. 2012	Professor, Keio University Law School (current)
Oct. 2013	Representative, Oka-Partners Law Office (current)
Mar. 2014	Outside Audit & Supervisory Board Member, Kao Customer Marketing Co., Ltd.
Jan. 2016	Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd. (current)
Mar. 2018	Audit & Supervisory Board Member, Kao Corporation (current)

Executive Officers and Corporate Executive Fellows (As of March 26, 2019)

Executive Officers



Michitaka Sawada
President and Chief Executive Officer
Responsible for Human Capital Development



Shigeru Ueyama
Managing Executive Officer
Senior Vice President, Corporate Strategy, Global



Toshiaki Takeuchi
Senior Managing Executive Officer
Representative Director, President, Kao Group
Customer Marketing Co., Ltd.



Masakazu Negoro
Managing Executive Officer
Senior Vice President, Procurement, Global



Yoshihiro Hasebe
Senior Managing Executive Officer
Senior Vice President, Research and
Development, Global;
Senior Vice President, Strategic Innovative
Technology, Global;
Responsible for Compliance



Yasushi Wada
Managing Executive Officer
Senior Vice President, Product Quality
Management, Global



Masumi Natusaka
Managing Executive Officer
Responsible for Special Missions



Osamu Tabata
Managing Executive Officer
Senior Vice President, Supply Chain
Management, Global;
Responsible for TCR Promotion



Yasushi Aoki
Managing Executive Officer
Representative Director, Chairman of the Board,
Senior Executive Officer,
Responsible for Special Missions,
Kanebo Cosmetics Inc.



Hitoshi Hosokawa
Executive Officer
Vice President, Research and Development –
Skin Care Products Research, Global;
Responsible for Research and Development –
Global Beauty Care



Tomoharu Matsuda
Managing Executive Officer
President, Consumer Products, Global;
Responsible for Skin Care and Hair Care Business;
Responsible for Human Health Care Business;
Responsible for Fabric and Home Care Business;
Responsible for Kao Professional Services Co., Ltd.;
Chairman of the Board, Oribe Hair Care, LLC



Hiroyuki Yamashita
Executive Officer
Vice President, Supply Chain Management –
Technology Development Center, Global



Minoru Nakanishi
Executive Officer
President, Consumer Products, Asia;
Chairman of the Board and President, Kao
(China) Holding Co., Ltd.;
Chairman of the Board and President, Kao
Corporation Shanghai;
Chairman of the Board and President, Kao
Commercial (Shanghai) Co., Ltd.;
Chairman of the Board and President, Kao
(Hefei) Co., Ltd.;
Chairman of the Board, Kanebo Cosmetics
(China) Co., Ltd.



Akemi Ishiwata

Executive Officer
Senior Vice President, Corporate Communications, Global



David J. Muenz

Executive Officer
Senior Vice President, ESG, Global



Satoru Tanaka

Executive Officer
President, Consumer Products, Americas and EMEA;
Chairman of the Board, Kao USA Inc.;
Chairman of the Board, Washing Systems, LLC



Akio Matsui

Executive Officer
Senior Vice President, Human Capital Development, Global;
President, Kao Group Corporate Pension Fund;
Chairman of the Board, Kao America Inc.



Kenichi Yamauchi

Executive Officer
Senior Vice President, Accounting and Finance, Global;
President, Kao America Inc.



Hideichi Nitta

Executive Officer
Vice President, Supply Chain Management – Demand and Supply Planning Center, Global



Hideaki Kubo

Executive Officer
Vice President, Research and Development, Global;
Responsible for Research and Development – Core Technology



Masahiro Katayose

Executive Officer
President, Chemical Business, Global;
Chairman of the Board, Fatty Chemical (Malaysia) Sdn. Bhd.;
Chairman of the Board, Pilipinas Kao, Inc.;
Presidente, Kao Chemicals Europe, S.L.



Yoshihiro Murakami

Executive Officer
Responsible for Cosmetics Business;
Representative Director, President, Kanebo Cosmetics Inc.;
Chairman of the Board, Molton Brown Limited



Shigeo Nakai

Executive Officer
Vice President, Research and Development – Performance Chemicals Research, Global;
Responsible for Research and Development – Environmental New Business



Ryoichi Harada

Executive Officer
Senior Vice President, Enterprise Information Solutions, Global;
Vice President, Strategic Innovative Technology, Global



Hideki Mamiya

Executive Officer
Representative Director, Senior Managing Executive Officer, Kao Group Customer Marketing Co., Ltd.



Hiroaki Taki

Executive Officer
Senior Vice President,
Marketing Emergence, Global



Masaru Takeyasu

Executive Officer
Senior Vice President, Legal and Compliance, Global

Corporate Executive Fellows

Yoshinori Takema

Corporate Executive Fellow
Individual treated as the same as the Company's Managing Executive Officer

Yuji Furui

Corporate Executive Fellow
Project Professor, Tokyo University
Visiting Professor, Jichi Medical University

Executive Fellows engage in activities to further deepen cooperation with outside parties by leveraging their expertise and external networks.

Takuji Yasukawa

Corporate Executive Fellow
Individual treated as the same as the Company's Executive Officer

External Evaluation

SRI Index and Evaluation (As of March 26, 2019)

SRI Index

Companies highly evaluated not only in financial terms but also in environmental and social terms are recognized as companies with prospects for long-term sustainable growth, and are given importance by a wide range of investors. Kao has been included in the following leading indexes in recognition of having this credibility globally.

 <p>MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM</p>	 <p>FTSE4Good</p>	 <p>FTSE Blossom Japan</p>	 <p>included in EY INDEX SUSTAINABILITY INDEX EXCELLENCE Global</p>
 <p>2018 Constituent MSCI ESG Leaders Indexes</p>	 <p>2018 Constituent MSCI Japan ESG Select Leaders Index</p>	 <p>2018 Constituent MSCI Japan Empowering Women Index (WIN)</p>	 <p>2019 Bloomberg Gender-Equality Index</p>
 <p>EURONEXT vigeoEiris INDICES WORLD 120</p>	 <p>ECPI Sense in sustainability</p>	 <p>S&P/JPX カーボン エフィシエント 指数</p>	 <p>TOP 100 COMPANY 2018 Thomson Reuters Diversity & Inclusion Index</p>

The FTSE4Good index series <http://www.ftse.com/products/indices/FTSE4Good> MSCI <https://www.msci.com/esg-integration>

Evaluation

 <p>CDP A LIST 2018 WATER SECURITY</p>	 <p>CDP SUPPLIER ENGAGEMENT LEADER 2019</p>	 <p>Most Sustainable Corporations In The World GLOBAL100</p>	 <p>2019 WORLD'S MOST ETHICAL COMPANIES WWW.ETHISPHERE.COM</p>	
 <p>2019 健康経営銘柄 Health and Productivity</p>	 <p>2019 健康経営優良法人 Health and productivity ホワイト500</p>	 <p>DIVERSITY MANAGEMENT SELECTION 2013 100</p>	 <p>NADE SHIKO 2019</p>	
 <p>DBJ健康格付 2016</p>	 <p>SPORTS YELL COMPANY</p>	 <p>プラチナアワード 環境でサポートしています</p>	 <p>Corporate Responsibility Prime rated by oekom research</p>	 <p>消費者 志向経営 Award 2018</p>

Editorial Policy

From the Editor

From FY2017, we have published the Integrated Report. This report is the third publication.

This report summarizes financial and non-financial information, including on business activities and strategy, business performance, and the corporate governance structure, with the aim of communicating our vision for sustained growth to a wide range of stakeholders including share holders and investors.

Based on the values of the Kao Way that have been passed down since our founding, we will define the Kao strengths born from these values and the value creation process, and have aimed to communicate our mid- to long-term strategy and value creation story taking a broad view of our entire business.

We participate as a member of the Forum for Integrated Corporate Disclosure and ESG Dialogue sponsored by the Japanese Ministry of

Economy, Trade and Industry (METI) as a venue to promote dialogue with investors who rate companies' overall information disclosure and corporate evaluations, and have created this report also in consideration of METI's Guidance for Collaborative Value Creation.

We will strive to further enhance the Integrated Report so that it serves as a tool for dialogue with all of our stakeholders, including stockholders and investors, and will strive to release information in ways that are easy to understand to further deepen understanding of our business.

Junya Kumazawa

Corporate Business Planning and Coordination
Corporate Strategy



Disclaimer on Forward-looking Statements

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

Scope of This Report

In principle, this report covers the activities of the Kao Group (Kao Corporation and its subsidiaries and affiliates). However, environmental and social data covers only Kao Corporation and its subsidiaries. In the event that the data does not apply to the Kao Group, the scope of such data is specified accordingly. "Kao" refers to the Kao Group within this report. In cases where it is necessary to specify the scope of reporting, this report lists the applicable institution individually.

Reporting Period

FY2018 (from January 1, 2018 to December 31, 2018). However, certain sections of this report include information on activities from periods prior to FY2017 as well as on expected activities from FY2019 and onward. Also, this report covers periods outside of the reporting period in cases where it is appropriate to provide past details and data or recent examples.

Introduction of Various Informative Tools

Corporate Website	www.kao.com/global/en/
Investor Relations	www.kao.com/global/en/investor-relations/
Sustainability	www.kao.com/global/en/sustainability/
Report Concerning Corporate Governance	www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance_001.pdf
Financial Report	https://www.kao.com/global/en/investor-relations/library/financial-report/

KaO

Enriching lives, in harmony with nature.

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Corporate Strategy

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