

Kao Corporation

Kao to Reinforce Group's Cosmetics Business by Integrating Research and Production Divisions **- Research and Production Supporting *Sofina* and *Kanebo* Brands Integrated -**

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To fortify the Group's cosmetics business, Kao Corporation (President and CEO: Michitaka Sawada, *Ticker Code:4452*) will integrate research and production divisions in the Group that support cosmetics business operations. With this effort, Kao aims to offer enhanced "beauty" to women worldwide, by anticipating new changes, and to provide thorough assurance of "safety and reliability."

Recently, drastic changes in the environment associated with cosmetics have occurred, including the public's rising health-consciousness and increase in active middle-aged and elderly people, together with growing interest in beauty accompanied by expansion of the middle-income bracket in emerging countries. Acting quickly to meet these changes, Kao has decided to integrate research and production divisions that support *Sofina* and *Kanebo* brands to make maximum utilization of the Group's assets, and to strengthen the Group's cosmetics business.

Since acquisition of Kanebo Cosmetics Inc. in February 2006, Kao has promoted mutual utilization of the two companies' competencies mainly in terms of their respective functional capabilities that sustain *Sofina* and *Kanebo* brands. Specifically included are interoperation of research assets and production facilities, integration of distribution and sales bases, cooperative operations in distribution, joint procurement, and human resource exchanges. These efforts have achieved certain results including generating synergetic effects of cost reduction in the amount of over 10 billion yen in total. However, to attain greater dynamic growth of the Group's cosmetics business, Kao has recognized it necessary to advance further transformation in the organizational and operational areas, and thus decided to unify research and production divisions at this time. The Company will also work on organizational integration in sales divisions in the near future. As a result of this integration process, Kanebo Cosmetics will ultimately become the company that manages *Kanebo* brand business.

Research Division

Starting January 2014, the Group's cosmetics research organizations will be integrated, and, in July 2014, Kao will implement full-scale cosmetics research at the laboratories in Odawara, which will serve as the base of the Group's cosmetics research and development.

Production Division

In January 2014, production divisions of the Group's cosmetic business will be integrated, and, starting in July 2014, the Kanebo Cosmetics Odawara Factory will be operated as a core plant manufacturing Kao Group's beauty care products, in the form of a new production company to be established as a wholly owned subsidiary of Kao.

Organizational integration of quality assurance divisions and consumer divisions, which conduct and manage "safety and reliability," was completed effective August 12, 2013. Moreover, research sections for safety and analysis were integrated in September prior to research divisional integration.

By unifying research and production divisions involved in the product development process at this time, Kao Group will further pursue efforts for safety and reliability as well as offer enhanced beauty and strive for *Yoki-Monozukuri*, the value of the Group, while advancing reforms in employees' awareness and organizational culture.

About Kao

Kao creates high-value-added products to help consumers around the world enrich their everyday lives. Over 20 leading brands such as *Asience*, *Attack*, *Bioré*, *Goldwell*, *Jergens*, *John Frieda*, *Kanebo*, *Laurier*, *Merries* and *Molton Brown* are part of the lives of people in Asia, Oceania, North America and Europe and help generate about 1,200 billion yen (about \$US13 billion) in annual sales. Kao employs about 35,000 people worldwide and has more than 120 years of history in innovation. Please visit the Kao group web site for updated information.

<http://www.kao.com/group/en/group/>

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