

(Translation)

Kao Corporation

Corporate Governance

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Kao Corporation

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TSE Code: 4452

<http://www.kao.com/jp/>

I. Basic Position on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information

1. Basic Position on Corporate Governance

The Company's basic position on corporate governance is to develop a managerial framework and internal control system that can take the necessary measures to realize highly efficient, sound, and transparent management with the aim of continuously increasing corporate value. The Company considers corporate governance to be one of its most important managerial tasks.

2. Capital Structure

Ratio of shareholding by foreign shareholders: 30% or more

[Major Shareholders] (Renewed)

Name of shareholder	Number of shares (thousand shares)	Ratio of shareholding (percentage)
Japan Trustee Services Bank, Ltd. (Trust Account)	30,902	5.72
Moxley and Company	23,761	4.39
The Master Trust Bank of Japan, Ltd. (Trust Account)	23,622	4.37
State Street Bank and Trust Company 505225	15,663	2.89
Tokio Marine & Nichido Fire Insurance Co., Ltd.	15,444	2.85
Northern Trust Co. (AVFC) Sub A/C American Clients	12,623	2.33
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	10,914	2.02

Nippon Life Insurance Company	10,200	1.88
The Chase Manhattan Bank, N.A. London SL Omnibus Account	9,976	1.84
The National Mutual Insurance Federation of Agricultural Cooperatives	9,092	1.68

3. Corporate Attributes

Listed stock exchange and market category	Tokyo Stock Exchange, First Section
Account settlement date	March 31 of each year
Business category	Chemical products
Number of employees (consolidated)	1,000 or more
Sales (consolidated)	1,000,000,000,000 yen or more
Parent company	None
Number of consolidated subsidiaries	100 or more, but less than 300

4. Other Special Circumstances That May Have a Material Effect on Corporate Governance

None

II. Business Administration Organization for Managerial Decision-Making, Execution and Supervision, and Other Corporate Governance Structure

1. Organization Structure, Organizational Management, etc.

Form of organization	Company with Corporate Auditors
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[Matters Related to Members of the Board of Directors]

Chairman of meetings of the Board of Directors	President
Number of members of the Board of Directors	15
Appointment of Outside Directors	Yes
Number of Outside Directors	2

Relationship with the Company (1)

Name	Attributes	Relationship with the Company (*1.)								
		a	b	c	d	e	f	g	h	i
Atsushi Takahashi	Originally from another company				○	○			○	
Osamu Shoda	Originally from another company				○				○	

- *1. Select the applicable item(s) regarding the Outside Directors' relationship with the Company:
- a. Originally from a parent company;
 - b. Originally from another group company;
 - c. A major shareholder of the Company;
 - d. Concurrently serves as an outside director or an outside corporate auditor of another company;
 - e. Holds office as an executive director, or an executive officer or similar of another company;
 - f. The spouse, or a relative of up to the third degree of kinship or similar, of an executive director or executive officer of either the Company or an entity with which the Company has a special relationship;
 - g. Receives remuneration, etc., or any other property benefits from a parent company or a subsidiary of a parent company, as its officer;
 - h. Has entered into a limitation of liability agreement with the Company; or
 - i. Other.

Relationship with the Company (2)

Name	Supplementary Explanations on Applicable Items	Reason for Appointment of Outside Director
Atsushi Takahashi	Representative Director, Chairman of the Board, The Sumitomo Trust & Banking Co., Ltd.	Mr. Takahashi has been appointed as Outside Director with the expectation that he would fulfill the management supervision and checking functions based on his considerable experience in company management as an executive of another company and his long experience in the financial industry.
Osamu Shoda	Honorary Chairman & Executive Adviser, Nisshin Seifun Group Inc.	Mr. Shoda has been appointed as Outside Director with the expectation that he would fulfill the management supervision and checking functions based on his considerable experience in company management as an executive of a company that engages in the manufacturing business as is the case with the Company.

Other Matters Regarding Principal Activities of Outside Directors

From April 2008 through March 2009, 15 meetings of the Board of Directors were held. Outside Director Mr. Atsushi Takahashi attended 13 meetings and Outside Director Mr. Osamu Shoda attended 12 meetings. At meetings of the Board of Directors, Mr. Atsushi Takahashi and Mr. Osamu Shoda regularly give their views on the Company's operations in general. They actively ask questions and express opinions on the agenda items at each meeting, from a broad and objective standpoint, based on their extensive experience. When necessary, they visit the Company's domestic and overseas business sites.

[Matters Related to Corporate Auditors]

Board of Corporate Auditors	Yes
Number of Corporate Auditors	4

Cooperation between Corporate Auditors and the Accounting Auditor

At the start of the accounting audit for each fiscal year, the Corporate Auditors receive from the Accounting Auditor an audit plan describing matters such as the fundamental audit policy, the major items and sites to be audited and the main contents of the audit. The Corporate Auditors also exchange views with the Accounting Auditor regarding the contents of the audit plan.

In each quarterly settlement of accounts, the Corporate Auditors receive from the Accounting Auditor, in the course of the quarterly audit conducted by the Accounting Auditor, reports on the main content of the audit and whether any material problem has been found in the audit so far conducted, and also exchange views with the Accounting Auditor. At the time when the Accounting Auditor submits a quarterly audit report to the Board of Directors of the Company, a quarterly audit report meeting is held, where the quarterly summary of the audit results are reported to the Corporate Auditors by the Accounting Auditor.

Similarly, in the settlement of accounts for each fiscal year, the Corporate Auditors have opportunities to mutually discuss with the Accounting Auditor the contents of their audits, in the course of the audit conducted by the Accounting Auditor. Furthermore, the Corporate Auditors receive an audit report from the Accounting Auditor within the time frame prescribed by law, as well as a summary of the audit results, which are later used by the Board of Corporate Auditors in preparing its audit report.

The Corporate Auditors also contact the Accounting Auditor whenever necessary

to cooperate in forming their respective audit opinions.

Cooperation between Corporate Auditors and Internal Auditing Divisions
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Corporate Auditors regularly meet, on a quarterly or semiannual basis, with Global Internal Audit and the Legal and Compliance, as well as the internal auditing divisions of the Company concerned with environment and safety, product quality management, risk management, and other areas, to hear about their activities and to exchange views. When necessary, Corporate Auditors and these divisions provide each other with the information they have, which serves to deepen the cooperation and raise the levels of their respective audit activities.

Appointment of Outside Corporate Auditors	Yes
Number of Outside Corporate Auditors	2

Relationship with the Company (1)

Name	Attributes	Relationship with the Company (*1.)								
		a	b	c	d	e	f	g	h	i
Tadashi Oe	Attorney-at-law				○				○	
Yutaka Yogo	Certified public accountant						○		○	

*1. Select the applicable item(s) regarding the Corporate Auditors' relationship with the Company:

- a. Originally from a parent company;
- b. Originally from another group company;
- c. A major shareholder of the Company;
- d. Concurrently serves as an outside director or an outside corporate auditor of another company;
- e. Holds office as an executive director, or an executive officer or similar of another company;
- f. The spouse, or a relative of up to the third degree of kinship or similar, of an executive director or executive officer of either the Company or an entity with which the Company has a special relationship;
- g. Receives remuneration, etc., or any other property benefits from a parent company or a subsidiary of a parent company, as its officer;
- h. Has entered into a limitation of liability agreement with the Company; or
- i. Others.

Relationship with the Company (2)

Name	Supplementary Explanations on Applicable Items	Reason for Appointment of Outside Corporate Auditor
Tadashi Oe	Outside corporate Auditor of Kao Customer Marketing Co., Ltd., outside corporate auditor of Canon Inc., and outside corporate auditor of Marui Group Co., Ltd.	Mr. Oe has been appointed as Outside Corporate Auditor with the expectation that he would contribute his views to the Company based on his high professional skills as an attorney-at-law as well as his considerable experience and expertise.
Yutaka Yogo	Mr. Yogo is a relative of up to the third degree of kinship of an employee of Kao Customer Marketing Co., Ltd., an entity with which the Company has a special relationship. However, as this employee, Mr. Yogo's son, is just a junior employee of Company's subsidiary, he has no influence over the management and audit of the Company. In addition, Mr. Yogo is a certified public accountant in private-practice and he is not in a position that has influence over the Company.	Mr. Yogo has been appointed as Outside Director with the expectation that he would contribute his views to the Company based on his high professional skills as a certified public accountant as well as his considerable auditing experience and expertise.

Other Main Activities of Outside Corporate Auditors

From April 2008 through March 2009, 15 meetings of the Board of Directors and 8 meetings of the Board of Corporate Auditors were held. Outside Corporate Auditor Mr. Tadashi Oe attended 14 meetings of the Board of Directors and all 8 meetings of the Board of Corporate Auditors. After Mr. Yutaka Yogo assumed office as a Outside Corporate Auditor, 13 meetings of the Board of Directors and 6 meetings of the Board of Corporate Auditors were held of which he attended all of these meetings. When necessary, they provide appropriate questions and statements

from a specialized, objective standpoint at meeting of the Board of Directors. In addition, at every meetings of the Board of Corporate Auditors, they actively furnish their opinions based on their extensive knowledge and experience. When necessary, they also participate in audits of domestic and overseas business sites.

[Incentive Plans]

Measures Regarding Incentive Plans Offered to Directors	Introduction of remuneration linked to corporate performance; and introduction of the stock option plan
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Supplementary Explanations on Applicable Items

With regard to the remuneration for members of the Board of Directors, the Company has implemented a stock option plan for the purpose of aligning the interests of the members of the Board of Directors with those of the shareholders of the Company, as well as remuneration linked to corporate performance based on EVA (Economic Value Added), etc., for the portion exceeding 20% of the planned annual remuneration; remuneration linked to corporate performance, however, does not apply to Outside Directors.

Note: EVA is a registered trademark of Stern Stewart & Co.

Stock Option Grantees	Members of the Board of Directors (including Outside Directors) and employees of the Company, members of the board of directors, executive officers and corporate auditors of the Company’s subsidiaries.
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Supplementary Explanations on Applicable Items

The Company grants stock options to applicable stock option grantees for the purpose of further increasing the Company’s corporate value by aligning the interests of the stock option grantees with those of the shareholders of the Company. The Company selects as stock option grantees members of the Board of Directors, Executive Officers and senior employees of the Company and executives of major subsidiaries, who are in charge of management and conform to this purpose.

[Remuneration for Members of the Board of Directors]

Method of Disclosure	Annual Securities Report, Business Report
Status of Disclosure	Aggregate amounts of remuneration for Internal Directors and Outside Directors are disclosed separately.

Supplementary Explanations on Applicable Items

The remuneration, etc., paid to the members of the Board of Directors for FY2008 (ended March 31, 2009) is as follows:

Measures taken in respect to remuneration, etc., to the members of the Board of Directors include: implementing a stock option plan for the purpose of aligning the interests of the members of the Board of Directors with those of the shareholders of the Company; clarifying the link between bonus amounts and corporate performance, based on EVA and other factors

Aggregate amount of remuneration, etc. paid to members of the Board of Directors for FY2008:

To 18 members of the Board of Directors:
323 million yen (including 17 million yen paid to two Outside Directors)

Notes

1. The above number of the members of the Board of Directors includes the 3 members of the Board of Directors who resigned at the conclusion of the 102nd Annual General Meeting of Shareholders held on June 27, 2008.
2. The aggregate amount of remuneration, etc., paid to members of the Board of Directors does not include the 113 million yen, which is the amount of salaries, etc. (including bonuses), paid to members of the Board of Directors who also serve as employees of the Company, for their services as employees.
3. The aggregate amount of remuneration, etc., paid to members of the Board of Directors includes the following amounts:
 - (i) The amount accounted for during FY2008 as the reserve for bonuses to members of the Board of Directors

3 million yen to 13 members of the Board of Directors

- (ii) The amount of remuneration, etc., as stock acquisition rights allotted as stock options, based on the resolution of the meeting of the Board of Directors held on July 28, 2008.

68 million yen to 14 members of the Board of Directors
(including 2 million yen paid to 1 Outside Director)

4. The maximum aggregate amount of remuneration, etc., to be paid to the members of the Board of Directors is as follows:

- (i) An annual amount of 630 million yen (resolved at the 101st Annual General Meeting of Shareholders held on June 28, 2007)

This amount includes 30 million yen for Outside Directors and does not include remuneration to be paid to members of the Board of Directors who also serve as employees of the Company, for their services as employees.

- (ii) An annual amount of 200 million yen (resolved at the 100th Annual General Meeting of Shareholders held on June 29, 2006)

This amount was approved as the maximum amount of stock acquisition rights to be allotted as stock options, apart from the amount in (i) above.

5. In addition to the aggregate amount of remuneration, etc., paid to the members of the Board of Directors, the following amounts have been paid based on a resolution at the 102nd Annual General Meeting of Shareholders held on June 27, 2008.

Retirement Allowance: 93 million yen paid to two members of the Board of Directors

Starting from July 2001, the Company ceased funding the retirement allowance reserve for the members of the Board of Directors, and the above retirement allowance has been paid to reward the services of the above members of the Board of Directors for the period of their service from their assumption of office as members of the Board of Directors to June 2001. With the above payment, all of the payments of the retirement allowances have been completed.

The above information has been disclosed in the Company's business reports and annual securities reports (only in Japanese), and they have been published on the Company's website.

[Outside Director (Outside Corporate Auditor) Support System]

To allow for active discussions at meetings of the Board of Directors, the Board of Directors Secretariat provides Outside Directors with sufficient explanations on matters such as the background, purposes, and content of the respective agenda items prior to each meeting of the Board of Directors.

Furthermore, under this support system, administrative divisions such as Global Internal Audit, and the Legal and Compliance provide the Outside Corporate Auditors with assistance upon the Outside Corporate Auditors' request.

2. Information on Business Execution, Audits and Supervision, Nomination, Setting of Remuneration, and Other Functions

In its previous framework of members of the Board of Directors and Corporate Auditors, the Company introduced the Executive Officer system in June 2002 in order to separate the supervision function from the execution function. Under its current management system following the conclusion of the 103rd Annual General Meeting of Shareholders held on June 26, 2009, the Company has: 15 members of the Board of Directors, including two Outside Directors; and 25 Executive Officers, including 13 Executive Officers who serve concurrently as members of the Board of Directors. In FY2008 (ended March 31, 2009), 15 meetings of the Board of Directors were held, and the average attendance rates of the members of the Board of Directors and the Corporate Auditors were 97.8% and 95.0%, respectively.

The Company is giving ongoing consideration as to whether it should become a "company with committees" as defined by the Corporation Law, namely a company that has a nominating committee, an audit committee, and a compensation committee. However, the Company has established the "Compensation Advisory Committee" and the "Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President," which perform functions similar to those of a compensation committee and a nominating committee of a "company with committees," respectively.

The Compensation Advisory Committee consists of all Representative

Directors, the Chairman of the Board of Directors(A Chairman of the Board of Directors was not elected at the meeting of the Board of Directors held following the conclusion of the 102nd Annual General Meeting of Shareholders), and all Outside Directors. At this Committee, the Representative Directors obtain opinions on the remuneration system and the level of remuneration for the members of the Board of Directors and Executive Officers. The Committee meets once a year during the period to review remuneration paid to the members of the Board of Directors and Executive Officers. In FY2008 (ended March 31, 2009), the committee held a meeting with the attendance of all committee members, who examined and judged that the remuneration system and level of remuneration for members of the Board of Directors and Executive Officers currently in office were appropriate. This result was reported to the Board of Directors.

The Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President consists exclusively of all Outside Directors and all Outside Corporate Auditors. This Committee examines the nominees prior to the election or re-election of the Chairman of the Board of Directors and/or the President, and submits its evaluation of the nominees' qualifications to the Board of Directors. With respect to the re-election of the President following the election of members of the Board of Directors at the Annual General Meeting of Shareholders in June 2008, a committee meeting was held prior to the re-election of the President with the attendance of all members of the committee, and the committee, after its examination, submitted to the Board of Directors its opinion that there were no problems in the qualifications of the nominee for President.

In addition, the accounting firm, Deloitte Touche Tohmatsu LLC as the Company's Accounting Auditor, ensures, in accordance with applicable laws, regulations, etc., that none of its employees who become involved in the audits of the Company will be involved in such audit for more than 7 years. The Company executed an audit contract with Deloitte Touche Tohmatsu LLC with respect to audits required under the Corporation Law and the Financial Instruments and Exchange Law, and pays remuneration to the accounting firm in accordance with this contract. The names of the certified public accountants (CPA) who engaged in the audit for FY2008 (ended March 31, 2009) and the composition of the assistants in the audit are as follows:

- Name of the CPAs engaged in the audit:

Designated Partner/Engagement Partner: Yutaka Kawakami, Yasuyoshi Ichikawa,

and Takeshi Ando

- Composition of assistants in the audit:

9 CPAs, 9 junior accountants etc, and 12 others

III. Status of Measures Taken in Respect to Shareholders and Other Stakeholders

1. Measures for Activation of Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early dispatch of convocation notices of annual general meetings of shareholders	The Company dispatches the convocation notice of each annual general meeting of shareholders approximately 1 month before the date of the meeting every year. (The convocation notice for the 102 nd Annual General Meeting of Shareholders held on June 27, 2008 was dispatched on May 30, 2008, i.e., 28 days before the date of meeting; and the convocation notice for the 103 rd Annual General Meeting of Shareholders held on June 26, 2009 was dispatched on May 29, 2009, i.e., 28 days before the date of the meeting).
Exercise of voting rights by electromagnetic means	<ul style="list-style-type: none"> The exercise of voting rights by electromagnetic means was started at the 100th Annual General Meeting of Shareholders held in 2006. The use of an electronic voting right exercise system for institutional investors ("Platform" operated by ICJ, Inc.) was also started at the 100th Annual General Meeting of Shareholders.
Other Measures	On the day on which a convocation notice of an annual general meeting of shareholders is dispatched to shareholders, the convocation notice (entire text) and its English translation (summary) are published on the Company's website, as well as on the agenda web pages for investors of The Chuo Mitsui Trust and Banking Company, Limited, Mitsubishi UFJ Trust and Banking Corporation, and The Sumitomo Trust & Banking Co., Ltd. At the Annual General Meeting of Shareholders, the Company provides the shareholders with easy-to-understand explanations for main parts of the "Business Report" and the "Key Approaches to Challenges and Medium-to-Long-Term Outlook" by using the projected images.

2. Status of IR Related Activities (Renewed)

	Supplementary Explanations	Explanation by Representative(s) of the Company
Regular meetings for analysts and	Meetings are held twice a year, on the date of the announcement of full-year and interim financial results. A business management overview and management policy	Yes

institutional investors	<p>are reported and explained by the President and CEO, and the actual and expected corporate performance are reported and explained by the Vice President of the accounting and finance management department. Members of management held a teleconference with domestic and foreign institutional investors upon the announcement of 3rd quarter financial result which was made in January, 2009. Furthermore, plant tours and business operation seminars are held whenever appropriate.</p>	
Regular meetings for foreign investors	<p>The President and CEO visits the United States and Europe once a year, respectively. In FY2008, members of the management visited Singapore and Hong Kong to hold seminars, and they explained the Company's management policy, as well as matters such as the managerial environment and business performance and outlook, and answered questions subsequently asked by investors. Members of management held a teleconference with domestic and foreign institutional investors upon the announcement of 3rd quarter financial result which was made in January 2009.</p>	Yes
Publication of IR materials on the Company's website	<p>Reports of financial results, quarterly reports, annual securities reports, quarterly securities reports, notices of convocation of shareholders meetings, notices of resolutions at shareholder meetings, annual reports (in English only), shareholders' reports (year-end and interim) and presentation materials at shareholders meetings and financial results briefing sessions (held twice a year) are published on the Company's website. Furthermore, reports of financial results, summaries of quarterly reports, convocation notices of shareholders meeting, notices of resolutions at shareholders meetings, presentation materials at shareholders meetings and financial results briefing sessions are translated into English and published on the Company's website on the days that they are announced.</p> <p>Information in Japanese available at: http://www.kao.com/jp/corp_ir/investors.html Information in English available at: http://www.kao.com/jp/en/corp_ir/investors.html</p>	No
Establishment	The Office of the President performs IR functions, aiming	—

of the investor relations division (personnel in charge)	to reinforce strategic disclosure of information. Three members (one Vice President and two other members in charge) respond to IR issues.	
Others Measures	The Company sends term-end reports and interim reports to shareholders every June and November. Furthermore, a “Kao Museum Tour” has been held since fall 2008 for shareholders who owned 1,000 shares or more. These tours were held in September 2009, too. In February 2009, a seminar for individual investors was held with cooperation from a securities company, etc.	

3. Measures for Respecting the Standpoint of Stakeholders

	Supplementary Explanations
<p>Respecting the Standpoint of Stakeholders through Internal Regulations, etc.</p>	<p>The Kao Way, an essence of the Company's corporate philosophy, declares, "Our mission is 'to strive for the wholehearted satisfaction and enrichment of the lives of people globally' through the Company's core domains of cleanliness, beauty, health and chemicals. The "Vision" section of the Kao Way further states, "We aim to be 'a global group of companies that is closest to the consumer/customer in each market,' earning the respect and trust of all stakeholders and contributing to the sustainable development of society."</p> <p>Furthermore, the Principles of Corporate Ethics in "Kao's Business Conduct Guidelines" state, "Kao Corporation seeks to be an honest and exemplary company, guided by sensible and fair actions and driven by a fundamental adherence to ethical principles that go beyond mere compliance with laws to earn the true respect of all stakeholders. "The Business Conduct Guidelines also give specific guidance about respecting the standpoint of stakeholders.</p>
<p>Implementation of Environmental Conservation Activities and CSR* Activities</p>	<p>The Company announced a new mission, as outlined in its medium- and long-term outlook: "Positioning ecology at the core of management, Kao aims to contribute to 'the wholehearted satisfaction and enrichment of the lives of people globally' in the fields of cleanliness, beauty and health." It will drive all Kao Group to meet, on a world scale, with changes in the surrounding business environment. To comply with this new mission and to symbolize its direction and resolve, the Company stipulated a new CI (corporate identity) and upheld its environmental statement.</p> <p>Please see below for the Kao Environmental Statement. http://www.kao.com/jp/en/corp_news/2009/pdf/20090617_002_01.pdf</p> <p>The CSR Committee chaired by the President and CEO, and the Committee for Responsible Care Promotion, chaired by the Representative Director, draw up and review basic policies for CSR activities, and the concrete day-to-day CSR activities are promoted by specialized sections which have been set up for this purpose. The CSR Report is issued every July (August for English version) and reports on the Company's basic position on CSR and its various CSR activities including environmental conservation activities.</p> <p>http://www.kao.com/jp/en/corp_csr/csr.html</p>

	* Corporate Social Responsibility
Formulation of Policies, Etc., for Information Disclosure to Stakeholders	<p>The Company has established Disclosure Guidelines which set forth its commitment to timely, accurate, and impartial disclosure of information to shareholders, investors, and all stakeholders in strict compliance with the Corporation Law, the Financial Instruments and Exchange Law, and other applicable laws and regulations, as well as the rules set down by the Tokyo Stock Exchange (TSE) where the Company's shares are listed, particularly through the timely disclosure of information falling under the scope of TSE's "Securities Listing Regulations."</p> <p>The Company's Disclosure Guidelines are published on the Company's website.</p>

IV. Basic Policy Regarding the Internal Control System and its Maintenance

1. Policy Regarding Maintenance of Internal Control System

<Basic Policy Regarding the Internal Control System>

The Company has established an Internal Control Committee chaired by the President and CEO. An important task of the committee is to develop a management structure, organization and system that facilitates legally compliant, efficient, sound, and highly transparent management that aims to consistently increase corporate value, and for this objective, the Company implements the following systems.

- (1) System to ensure that members of the Board of Directors' and employees' execution of their duties conforms to laws and the Articles of Incorporation

Members of the Board of Directors and employees of the Kao Group companies should act with integrity based on "Kao's Business Conduct Guidelines," which govern compliance with applicable laws and regulations, the Articles of Incorporation, internal rules and social ethics. The Compliance Committee, chaired by the member of the Board of Directors in charge of compliance, promotes this compliance. Monitoring by Global Internal Audit as well as notices and reports to the Compliance Reporting Hotline from concerned parties in and outside the Company enable Kao to gauge the state of compliance at an early stage, work to quickly resolve any issues that arise, and take appropriate steps to prevent the recurrence of similar cases.

- (2) System for retention and management of information concerning members of the Board of Directors' execution of their duties

Information (minutes, decision records and their relevant materials, account books and records, and other information and the like) related to members of the Board of Directors' execution of their duties is properly retained and managed according to the document retention and management policies and other related policies. Members of the Board of Directors, Corporate Auditors and employees designated by them may access such information at any time.

- (3) Rules and other systems concerning risk management

Risks involved in business strategies are analyzed and countermeasures are discussed by the relevant departments in advance; when necessary, discussion of these risks and countermeasures takes place in meetings of the Board of Directors or the Management Committee. Risks in business operations are managed in accordance with Kao's Risk Management Policy. The Risk Management Committee, chaired by the member of the Board of Directors in charge of risk management, promotes risk management throughout the Kao Group companies and develops countermeasures for disasters and other emergencies. In the event of a serious crisis, countermeasures headquarters, which should be headed by the President and CEO, is set up to respond to the crisis.

- (4) System to ensure that members of the Board of Directors efficiently execute their duties

After determining the direction to be focused on in a medium-term business plan the Board of Directors reflects it in the medium-term plans of each department and subsidiary. The medium-term plans are reviewed annually by the Board of Directors and the Management Committee, and necessary adjustments are made in response to the progress of the plans and changes in the business environment. The Management Committee reviews, monthly or whenever appropriate, the progress of the revenue and expenditure plan and other important business plans, extracts the main issues and then implements measures in response. In order to separate supervision and execution functions and to ensure the effectiveness of these functions, the decision rules for the Board of Directors and the Management Committee are reviewed as necessary.

- (5) System to ensure the appropriateness of business operations in the Kao Group

The Internal Control Committee and related committees promote various policies to make sure that the business activities of the Company and its subsidiaries conform to applicable laws and regulations and respective articles of incorporations. In addition, they promote and monitor efforts to ensure the appropriateness and efficiency of business operations throughout the Kao Group companies, and report regularly to the Board of Directors. Representative Directors and members of the Board of Directors and Executive Officers in charge of the relevant business operations, provide guidance for the development of appropriate internal control systems for Kao Group companies, according to their respective duties. In addition, to ensure the appropriateness of business operations at subsidiaries, they make improvements to the rules for periodic reports from subsidiaries and enhance internal audit functions.

- (6) System to ensure reliability of financial reports

In order to ensure the reliability of financial reports, the Company evaluates, improves, and documents in writing the state of the Company's internal control system and the process of business operations based on the policies of the Internal Control Committee and the Board of Directors confirms these activities regularly.

- (7) Employees to be assigned if Corporate Auditors request staff to assist in their duties

In the event that a request is made by Corporate Auditors for assignment of staff to provide assistance to conduct their audits effectively, the members of the Board of Directors should assign employees after discussing specific personnel selection with the Corporate Auditors.

- (8) Independence of employees in the preceding paragraph from members of the Board of Directors

In the assignment, evaluation or transfer of, or any disciplinary action taken against, employees who assist in the duties of Corporate Auditors, the opinions of the Board of Corporate Auditors should be solicited and respected.

- (9) System for members of the Board of Directors and employees to report to Corporate Auditors, and other systems concerning reporting to Corporate Auditors

Corporate Auditors may attend meetings of the Management Committee, the Internal Control Committee and related committees, and may access the minutes, decision records and other documents of important meetings at any time. They may also receive activity reports from the head of each division, and have regular exchanges of views with Representative Directors. In addition, members of the Board of Directors should promptly report to Corporate Auditors any facts that may potentially cause significant harm to the Company or any occurrence of a serious violation of applicable laws or regulations or the Articles of Incorporation.

- (10) System to ensure that audits by Corporate Auditors are conducted effectively

To conduct efficient and effective audits, Corporate Auditors maintain a close cooperative relationship, which includes the exchange of information, with the Accounting Auditor and the internal audit functional departments such as Global Internal Audit, as well as corporate auditors and internal audit departments of subsidiaries. In addition, Corporate Auditors may independently receive support from outside specialists such as lawyers and certified public accountants when necessary.

2. Basic Policy to Eliminate Antisocial Forces and its Maintenance

The Company has made the following declaration in Kao's Business Conduct Guidelines, of which the Company has familiarized all employees of Kao Group companies. Kao's Business Conduct Guidelines are published on the Company's website.

We shall not engage in any activities which are detrimental to society.

Furthermore, we shall resolutely resist pressure by any individual, group or organization to support such activities.

- We shall maintain a resolute attitude against activities which are unlawful or contrary to the public welfare.
- We shall not participate in any activities that are illegal or contrary to the public welfare regardless of any competing pressure to do so.
- We shall reject any relationship with groups that act contrary to the public welfare, and shall not yield to any attempt of blackmail or threat. We shall

not involve ourselves in any activities or conduct which offends social norms or morality, such as money laundering, offers of illegal interest, etc.

To cut off any relationships with anti-social forces, the Company coordinates with external specialized agencies, collects and manages information and maintains an appropriate internal organization for the purpose thereof under normal circumstances.

Please see the reference material "Status of Corporate Governance System" in the "Appendices" at the end of this policy.

V. Other Matters

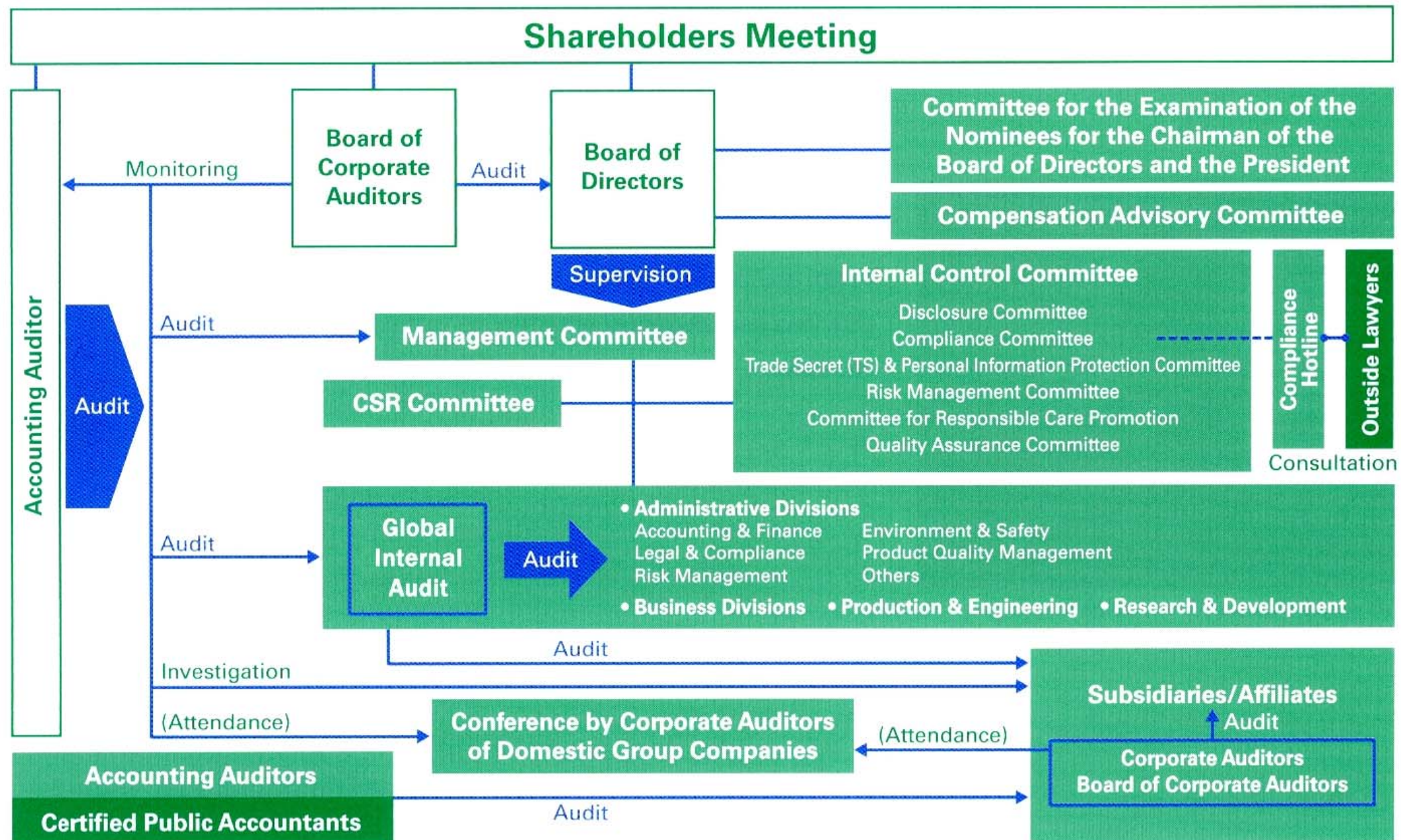
1. Hostile Takeover Defenses

As of this date, the Company has not adopted defensive measures against hostile takeovers.

2. Other Matters Regarding the Corporate Governance System, Etc.

None

Corporate Governance Structure



Note: Our policy is to ask experts, such as lawyers, for their advice as reference in making business judgements, if necessary, concerning business management and daily operations.