

Adoption of Standards for Independence of
Outside Directors/Audit & Supervisory Board Members of Kao Corporation

Kao Corporation (the “Company”) has adopted at a meeting of its Board of Directors the “Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation” as described below, with the unanimous consent of its Audit & Supervisory Board Members. The purpose of establishing these Standards is to provide clear criteria for an outside director/Audit & Supervisory Board Member to qualify as an independent director/Audit & Supervisory Board Member.

(Translation)

STANDARDS FOR INDEPENDENCE OF
OUTSIDE DIRECTORS/AUDIT & SUPERVISORY BOARD MEMBERS
OF
KAO CORPORATION

(Established on February 25, 2010)

(Revised on July 1, 2012)

1. In order for the board of directors of Kao Corporation (the “Company”) to determine an outside director¹ or outside Audit & Supervisory Board Member² of the Company (collectively, the “outside director/ Audit & Supervisory Board Member”) qualifies as independent, the relevant outside director/Audit & Supervisory Board Member must be neutral and independent from the management of the Company and must not be described by any of the following items (an outside director/Audit & Supervisory Board Member who is qualified as independent is hereinafter referred to as an “independent director/Audit & Supervisory Board Member”):
 - (a) A person executing the operations³ (“executing person”) of the Company or its affiliate companies (collectively, the “Kao Group”);
 - (b) A party for whom the Kao Group is a principal business partner⁴ or an executing person of such party;
 - (c) A principal business partner of the Kao Group⁵ or an executing person of such party;
 - (d) A large shareholder of the Company (a party which directly or indirectly holds 10% or more of the total voting rights of the Company) or an executing person of such party;
 - (e) An executing person of a party in which the Kao Group is a large investor (a party, 10% or more of whose voting rights are directly or indirectly held by the Kao Group);
 - (f) A party which has received a significant amount of donation from the Kao Group⁶ or an executing person of such party;

- (g) A consultant, an accounting professional such as a certified public accountant or a legal professional such as an attorney-at-law who has received a significant amount of money or other property from the Kao Group, other than as compensation for being a director and/or an Audit & Supervisory Board Member⁷ (if the party having received such property is a corporation, partnership or any other entity, this item refers to a person belonging to the relevant entity);
 - (h) A person belonging to the auditing firm engaged to conduct the statutory audit of the Company;
 - (i) In the case where any executing person of the Kao Group currently serves, or served within the past three (3) years, as an outside director/Audit & Supervisory Board Member of any other company, an executing person of such other company;
 - (j) Any person who was described by any of the items (a) to (i) above in the past three (3) years; and
 - (k) An immediate family member, etc.⁸ of any of the persons listed below:
 - a. Any person described in items (b) through (i) above; provided, however, that an “executing person” in items (b) through (f) is limited to key executing persons⁹; a “person belonging to the relevant entity” in item (g) is limited to key executing persons, and if the relevant entity is an auditing firm, a law firm or any other professional entity, such person is limited to persons with professional qualifications such as certified public accountants, attorneys-at-law; a “person belonging to the auditing firm” in item (h) is limited to key executing persons and other persons with professional qualifications such as certified public accountants; and “an executing person of such other company” in item (i) is limited to key executing persons of such other company;
 - b. A key executing person of the Kao Group; and
 - c. Any person who was described by item b. above in the past three (3) years.
2. In addition to the requirements set forth in the preceding Article there must not be any circumstances that are reasonably deemed to prevent an independent director/Audit & Supervisory Board Member from performing his or her duties as an independent

director/Audit & Supervisory Board Member.

3. An independent director/Audit & Supervisory Board Member must make efforts to maintain independence as set forth in these Standards until retirement or resignation from his or her position. If an independent director/Audit & Supervisory Board Member loses his or her independence as set forth in these Standards, he or she shall notify the Company immediately.

END

¹ “Outside director” means the Outside Director as defined in Article 2, item (xv) of the Companies Act.

² “Outside Audit & Supervisory Board Member” means the Outside Audit & Supervisory Board Member as defined in Article 2, item (xvi) of the Companies Act.

³ “A person executing the operations” shall include a director (other than an outside director), an executive officer, an executive partner, a board member (*riji*) (other than an outside board member (*gaibu riji*) (hereinafter referring to the Outside Board Member as defined in Article 113, Paragraph 1, item 2b of the Act on General Incorporated Associations and General Incorporated Foundations (including where applied *mutatis mutandis* pursuant to Article 198 of the same Act)), and any similar official and an employee of a corporation or any other entity.

⁴ “A party for whom the Kao Group is a principal business partner” means a party who is described by any of the following items:

- a. A business partner group (parties which belong to the consolidated group to which the Company’s direct business partner belongs; hereinafter the same) offering products and/or services to the Kao Group, whose total amount of transactions with the Kao Group in the last fiscal year exceeds the greater of JPY 100 million, or 2% of the consolidated sales or gross income of such business partner group; or
- b. A business partner group to which the Kao Group owed, as of the end of the last fiscal year, a debt or debts of the Kao Group to such business partner group exceeding, in the aggregate, the greater of JPY 100 million, or 2% of the consolidated total assets of such business partner group.

⁵ “A principal business partner of the Kao Group” means a party who is described by any of the following items:

- a. A business partner group to which the Kao Group offers products and/or services, with which the total amount of the Kao Group’s transactions in the last fiscal year exceeds the greater of JPY 100 million, or 2% of the consolidated sales of the Kao Group;
- b. A business partner group which owed to the Kao Group, as of the end of the last fiscal year, a debt or debts of such business partner group to the Kao Group exceeding, in the aggregate, the greater of JPY 100 million, or 2% of the consolidated total assets of the Kao Group; or
- c. A lender financial institution group (parties which belong to the consolidated group to which the Company’s direct lender belongs), from which the Kao Group’s aggregate borrowings exceeded 2% of the consolidated total assets of the Kao Group as of the end of the last fiscal year.

⁶ “A party which has received a significant amount of donation from the Kao Group” means a party which received from the Kao Group in the previous fiscal year donation exceeding the greater of JPY 10 million, or 2% of the sales or the gross income of such party.

⁷ “A consultant, an accounting professional such as a certified public accountant or a legal professional such as an attorney-at-law who has received a significant amount of money or other property from the Kao Group, other than compensation for director and Audit & Supervisory Board Member” means a party who received property, other than compensation for director and Audit & Supervisory Board Member from the Kao Group in the previous fiscal year which exceeds the greater of JPY 10 million, or 2% of the sales or the gross income of such party.

⁸ “Immediate family member, etc.” means a relative within the second degree of kinship and any interested

person sharing the same household budget.

⁹ “Key executing person” means, from among the executing persons, a person executing important operations, including a director (other than an outside director), an executive officer, an executive partner, a board member (other than an outside board member) and a head of division.

Note: The above-mentioned “fiscal year” shall be deemed to be replaced with the tax accounting year for income tax in the case of an individual.