

February 22, 2024

Summary of the FY2023 Evaluation of the Effectiveness of the Audit & Supervisory Board

Audit & Supervisory Board, Kao Corporation

The Audit & Supervisory Board is engaged in auditing activities to achieve sound and sustainable growth of the Group and establish governance that meets the trust of stakeholders. The Audit & Supervisory Board evaluates its effectiveness annually with the aim of continuously improve the effectiveness of its auditing activities.

1. Summary

The Audit & Supervisory Board audits primarily key auditing items and evaluates the effectiveness of its activities from a multifaceted and objective perspective. In evaluating the effectiveness, besides self-evaluation (scoring/description) by each Audit & Supervisory Board Member, the Audit & Supervisory Board gathers feedbacks from related parties and identifies good points and issues to reflect these findings in the policy for auditing activities, key auditing items, and audit plan for the next fiscal year.

In addition, the Audit & Supervisory Board reviews and revises the evaluation method and items in view of social trends, stakeholders' requests, etc.

2. Evaluation method

In the current fiscal year, to ensure a multifaceted and objective perspective, the Audit & Supervisory Board sent questionnaires (description) to not only the Audit & Supervisory Board Members but also to Outside Directors and Executive Officers with titles, and exchanged opinions with Representative Directors. The Audit & Supervisory Board also interviewed the Accounting Auditor, and Kao Group Internal Audit division (KGIA), for reference purposes.

3. Evaluation items

Evaluation items for the current fiscal year are as shown below. The Audit & Supervisory Board set evaluation items based on key auditing items and then set sub-items to align the evaluation viewpoint of each evaluation item.

- The compositions and functions of the Audit & Supervisory Board and its Members
- The structure for supervising the functions of the Board of Directors
- The progress of implementation of management strategies and response to risks

- Improvement in the effectiveness of the Group governance (the Audit & Supervisory Board Members of the Group companies, Accounting Auditor, KGIA)
- The status of design and operation of the internal control system
- Enhancement of information disclosure

4. Results of evaluation of the effectiveness and identified issues

As a result of discussion by the Audit & Supervisory Board, the overall evaluation was “effectively functioning”.

Major results and findings of the evaluation of the effectiveness, including identified issues, are as follows:

- The Audit & Supervisory Board made clear the points to be discussed and created the right climate for frank exchange of opinions, and exchanged opinions on medium-to long-term issues and other topics, as needed, in a free discussion setting, without being restricted to the agenda of the Audit & Supervisory Board meeting.
- Regarding the progress of implementation of management strategies, the Audit & Supervisory Board observed and assessed the degree of utilization of ROIC by business and the progress of structural reforms at actual sites (Genba), compiled the results of such observation and assessment into a proposal, and shared the proposal with Board of Directors. The Audit & Supervisory Board will continue to observe the ROIC by business.
- As for response to risks, the Audit & Supervisory Board confirmed that the probability and exposure of respective corporate risks were well balanced and a risk management system has been established by prioritizing the risks.
- As for improving the effectiveness of the Group governance, the Audit & Supervisory Board conducted the evaluation of the effectiveness of the Auditors at important subsidiaries in Japan. We also recognized the need to improve the effectiveness of audit on internal control at overseas group companies in line with local characteristics and inherent risks.
- As for the three audits (the Audit & Supervisory Board Members, Accounting Auditor, KGIA), we recognized the need to share audit plans and issues in order to further strengthen the collaboration among them.

The issues identified through the evaluation of the effectiveness will be reflected in auditing activities and key auditing items for the next fiscal year in order to further enhance effectiveness. In addition, we will strengthen collaborations with the Board of Directors by discussing related initiatives with the Board of Directors from diverse perspectives. Furthermore, we will strive to strengthen the management foundation and corporate value to earn the trust of stakeholders.