

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



Sonosuke Kadonaga

Outside Director
Chairman of the Board of Directors

Overview of the Process to Select Kao's New President and Chief Executive Officer

In January 2021, Dr. Yoshihiro Hasebe was appointed Kao's new President and Chief Executive Officer. As Chairman of the Board of Directors and of the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members, I was involved for approximately a year in the process to select the new President and Chief Executive Officer. The steps in the selection process were conducted appropriately, starting with discussions of what qualities the person needed to have, and then continuing with the selection of candidates, learning about the qualities and aptitudes of each candidate, and then using this as the basis for evaluating the candidates. The first step in the process was for the examination committee to discuss what kinds of qualities Kao's next President and Chief Executive Officer needed to have. Out of this discussion, we determined that the following five qualities would be our main focus: (1) Being able to identify what is essential and press on with reforms without being tied to how things were in the past, (2) Having ideas, and being able to communicate and implement them in a way that resonates with employees, (3) Being able to create new businesses with an eye to the future, (4) Being

able to maximize opportunities while minimizing risk, (5) Being able to embody the Kao Way, our corporate philosophy. Next, an extensive pool of potential candidates was narrowed down and committee members gained a more in-depth understanding of the candidates, including through opportunities for direct interactions with them. We held repeated discussions about the candidates based on the above, and as a result of comparing each candidate with the qualities we were looking for in Kao's next President and Chief Executive Officer, the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members reported to the Board of Directors that Dr. Yoshihiro Hasebe was the most qualified candidate. The selection process and the results of our deliberation were shared with the Board of Directors, which then held its own discussions, followed by unanimous approval for the appointment of Dr. Yoshihiro Hasebe as Kao's next President and Chief Executive Officer.

While Dr. Yoshihiro Hasebe has assumed his new position in the midst of a very challenging business environment stemming from the COVID-19 pandemic, I am confident that he will continue to act boldly and proactively to implement reforms, and will adopt an aggressive management posture aiming to realize Kao's vision.



Nobuhide Hayashi

Outside Director

Aiming to Contribute to the Realization of K25 and the Enhancement of Corporate Value through Open, Constructive Dialogue

I believe that the ultimate purpose of the Board of Directors is to enhance corporate value over the mid- to long-term, and to effectively realize the putting in place of a governance framework appropriate to the company's actual circumstances. FY2020 was the year in which Kao formulated its new mid-term management plan, the Kao Group Mid-term Plan 2025 (K25). This process began with discussion regarding the overall vision for K25. The Board of Directors engaged in repeated, in-depth discussion, and in addition, intensive, whole-day discussions were held involving all Outside Directors. In this way, the formulation of K25 was undertaken after extensive consensus-building between management and Outside Directors. I believe that undertaking the process in this way made it possible to achieve more in-depth discussion of Kao's vision, business model and human capital development strategy. Implementation of K25 began in January 2021. Going forward, we will need to carry out a thorough PDCA (plan, do, check, act) cycle on an annual basis in accordance with the K25 roadmap, while ensuring that K25 is strategically disseminated both within and outside the company. I also believe that we will need to specify the types

of human capital that will be required in order to implement K25 effectively, and engage in discussion regarding talent cultivation plans and the effective utilization of external talent, including recruitment of non-Japanese employees. It is also very important to check whether the outcomes of discussion by the Board of Directors are able to take root firmly within the organization as a whole, and to ensure that, when problems emerge, possible solutions to these problems are discussed by the board. I feel that, overall, Kao's Board of Directors is very well structured, and I hope that the board will be able to continue making a positive contribution toward the achievement of K25 and the enhancement of corporate value through open, constructive discussion that does not discriminate between Inside and Outside Directors.

Contributing toward Enhancing Governance throughout the Kao Group as a Whole

Since taking up the position of Outside Audit & Supervisory Board Member in March 2018, I have attended every meeting of the Board of Directors and of the Audit & Supervisory Board. Kao's Board of Directors operates with a high level of efficiency, with open, wide-ranging discussion based on the spirit of the Kao Way that does not distinguish between Outside and Inside Directors, or on the basis of the position held. With regard to internal controls, Kao is currently engaged in the building of a framework to further enhance the effectiveness of its internal controls and adjust how they operate. I hope to engage in further discussions on this matter at the meetings of the Board of Directors, which is charged with the role of management oversight. Regarding risk management and crisis management, it is important not only to make the maximum possible effort to prevent incidents from occurring, but also to ensure that, if an incident does occur, the negative impact is minimized. In my role as an Outside Audit & Supervisory Board Member, I am focused on realizing the timely transmission of information and on ensuring appropriate initial response, etc.

I also serve as a Member of the Audit & Supervisory Board of Kao Group Customer Marketing Co., Ltd., a subsidiary of Kao Corporation, and I aim to make a contribution from the perspective of enhancing group governance in the Kao Group as a whole. The Kao Group holds Affiliated Company Audit & Supervisory Board Member Coordination Meetings which are attended by auditors from Kao affiliates within Japan, with the Audit & Supervisory Board Members of Kao Corporation playing a central role. I do my utmost to take advantage of opportunities such as this to spread awareness of the proper approach for Audit & Supervisory Board Members to take, and to invigorate their activities. The effectiveness of the Audit & Supervisory Board is evaluated on an annual basis. As a result, a number of new initiatives were implemented in FY2020, including the establishment of a Compensation Advisory Committee for Audit & Supervisory Board Members Initiatives such as this will provide a foundation for raising the overall level of corporate governance at Kao and for supporting further enhancement of corporate value.



Nobuhiro Oka

Outside Audit & Supervisory Board Member

Corporate Governance



Basic Views

Our targets for 2030 are to make Kao a company with a global presence, valuable to society. In order to become an essential company in a sustainable world, we are significantly shifting its direction to ESG management. While aiming to become a high-profit global company, we are also working toward raising the level of social contribution by capturing changes in business environments surrounding us and changes in stakeholders' values. In order to gain trust from society, which is indispensable for these corporate activities and business activities, we are constantly strengthening its corporate governance in both systems and operations. We view accomplishing its corporate governance as one of its most important management issues and

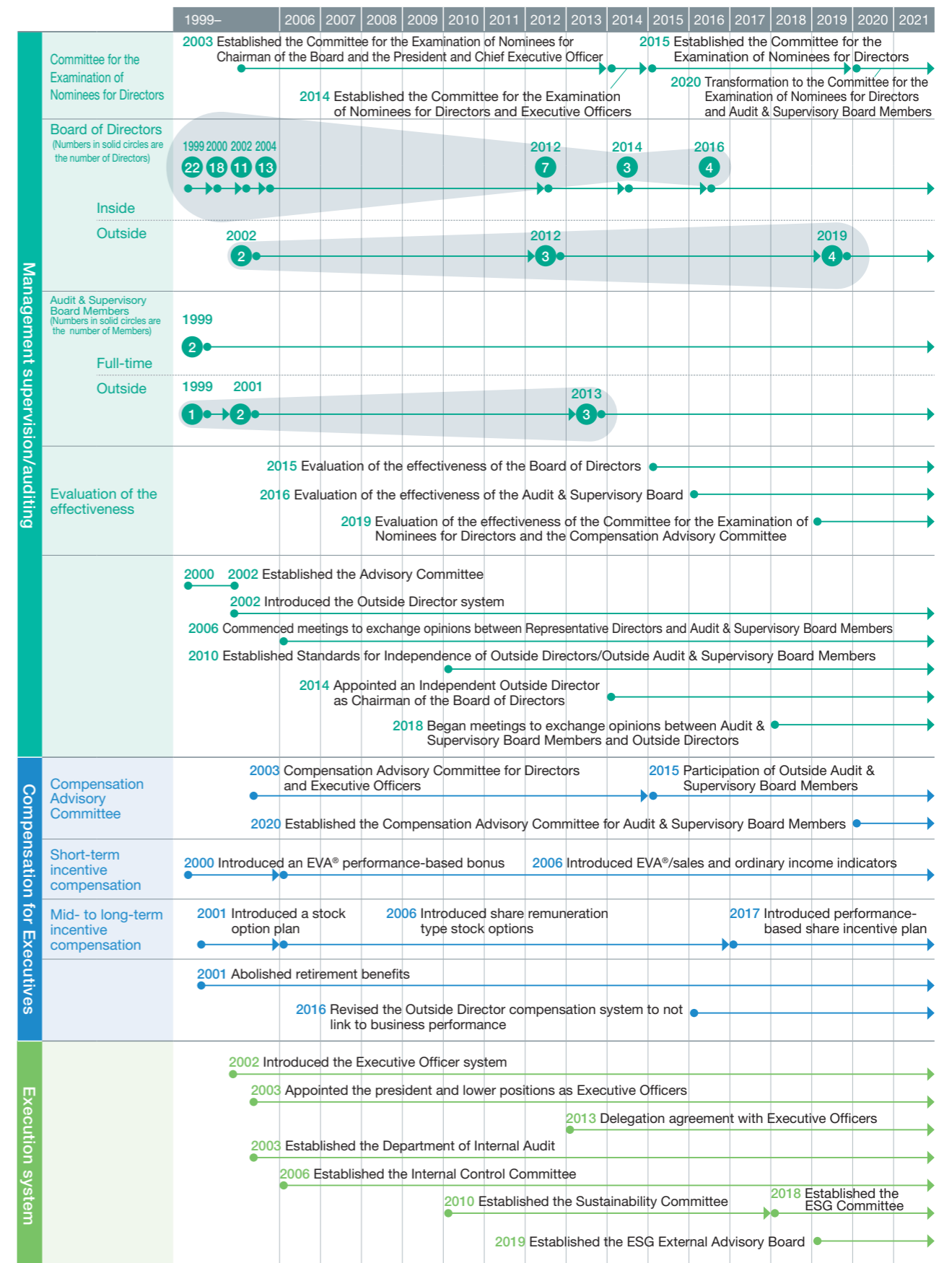
the company's basic stance on measures related to corporate governance is to set up and operate a management structure and an internal control system, implement necessary measures in a timely manner and achieve accountability so that we can swiftly respond to changes, realize efficient management that is sound, fair and highly transparent, and continuously enhance corporate value. 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.

Features of Kao's Corporate Governance

● Integrity	We practice corporate governance that places our corporate philosophy, the Kao Way, at the core of our business management, and with a consistent focus on walking the right path (Integrity), which is one of values of the Kao Way. Employees work together based on mutual respect and fairness, bring an attitude of sincerity and diligence, and conduct themselves lawfully and ethically, and by so doing we are able to maintain the support and trust of all stakeholders and engage in sound and honest business activities.
● Innovation	We have pursued creation of the most optimal structure to respond to changes in the business environment as well as social demands. In FY2020, we revised our structure and its operations to further raise the level of our governance, including adding Audit & Supervisory Board Members to the positions subject to review by the Committee for Examination of Nominees and establishing the new Compensation Advisory Committee for Audit & Supervisory Board Members, and are striving to improve our corporate value.
● ESG Vision	We have established our ESG Vision in order to become a company that is essential to a sustainable world, and we position the creation of effective corporate governance as a prerequisite and a driver to vigorously advance the realization of this vision.
● Use of outside executives	We have put in place a system of governance able to maintain a high degree of objectivity, including making 7 of the 13 members of the Board of Directors/Audit & Supervisory Board Members independent and outside members and having an Outside Director serve as Chairman of the Board of Directors, to ensure that the Board of Directors is able to appropriately perform management oversight. Outside Directors and Outside Audit & Supervisory Board Members are designated with priority placed on their independence as well as their expertise and high-level insight. They oversee and audit planning and execution of business strategy and the like from their diverse viewpoints, facilitating effective and judicious decision-making.
● Strengthening internal control	The Internal Control Committee leads discussions on compliance, risk and crisis management, and related topics across the Kao Group to improve the effectiveness and efficiency of our business processes, ensure the credibility of our financial reporting, comply with laws and regulations in our business activities, and preserve our assets, and we are strengthening internal control throughout the Kao Group.

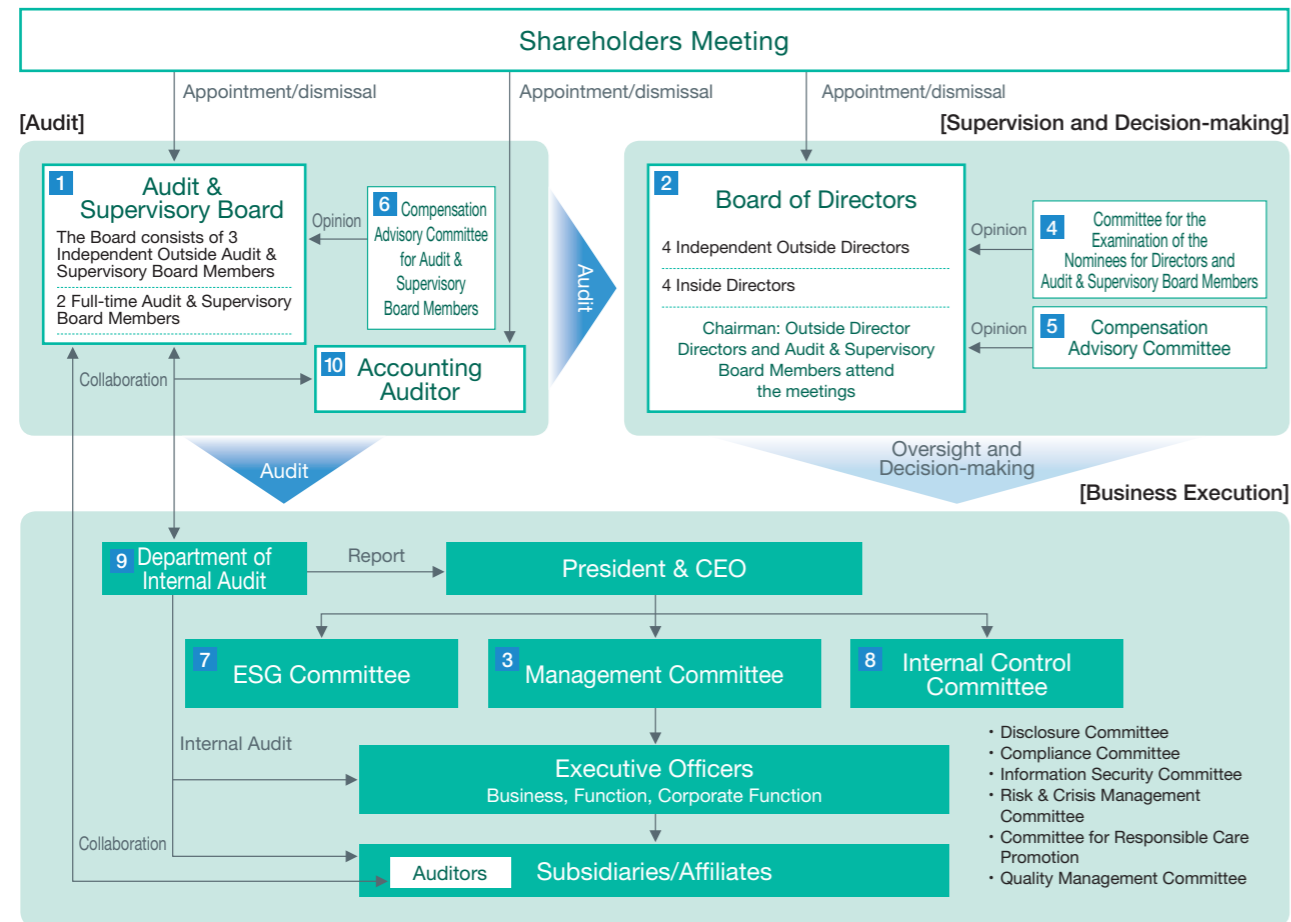
Report Concerning Corporate Governance
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance_001.pdf
 Please see our corporate website for more information about our corporate governance.

The Path toward Strengthened Governance



Kao's Approach to Corporate Governance

Corporate Governance Structure (As of June 2021)



1 Audit & Supervisory Board

Composed of Full-time Audit & Supervisory Board Members who are familiar with the company's internal matters, and Outside Audit & Supervisory Board Members who possess a high level of specialist expertise and know-how in the fields of finance, accounting or legal affairs, the Audit & Supervisory Board engages in in-depth discussion from an independent, objective viewpoint. The Audit & Supervisory Board Members realize effective auditing by attending important meetings, such as meetings of the Board of Directors and of the Management Committee, as well as through coordination with the Accounting Auditor, the internal auditors of each division and the auditors of affiliated companies, and through the implementation of audits at individual divisions within the company and of surveys at affiliated companies.

2 Board of Directors

The Board of Directors deliberates from various perspectives, including the evaluation of risks, on the overall direction of management including management strategy, and monitors from multiple viewpoints whether the management strategy is being properly implemented. It also puts in place an environment conducive to aggressive management that also clearly identifies risks, by establishing an internal control system and risk management system.

3 Management Committee

With a membership that consists mainly of personnel at Managing Executive Officer level or higher, the Management Committee makes decisions relating to the execution of the mid- to long-term direction and strategy that has been deliberated on and decided on by the Board of Directors. Delegating wide-ranging authority to the Management Committee helps to speed up decision-making and execution.

4 Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members

Comprising all Outside Directors and Outside Audit & Supervisory Board Members, this committee examines and deliberates on the appropriateness and other qualities of Director nominees, including nominees for the positions of Chair, President and Chief Executive Officer and Representative Director, as well as Audit & Supervisory Board Member nominees, and submits its opinions to the Board of Directors. The committee also discusses issues relating to the scale, composition and diversity of the Board of Directors and the Audit & Supervisory Board, as well as the qualities and capabilities required by their members, and reports on its findings to the Board of Directors.

5 Compensation Advisory Committee for Audit & Supervisory Board Members

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

6 Compensation Advisory Committee for Audit & Supervisory Board Members

Comprising all Outside Audit & Supervisory Board Members, the President and Chief Executive Officer, and one Outside Director, this committee examines, from an external perspective, the appropriateness of the amount of compensation awarded to Audit & Supervisory Board Members by the decision of the Shareholders Meeting, and the transparency of the process by which this decision was made, and submits its opinions to the Board of Directors.

7 ESG Committee

To gain the support and trust of all stakeholders, the ESG Committee discusses and determines the direction of the group's activities pertaining to the ESG Strategy, aiming to contribute to the sustainable development of the Kao as a company with a global presence, and of society. The concrete embodiment of ESG Strategy is promoted by the ESG Promotion Meeting, and developed through activities carried out by individual divisions. The overall direction of ESG activity is confirmed and adjusted as necessary by the committee based on the current state of company-wide ESG activity promotion and the recommendations received from the ESG External Advisory Board.

8 Internal Control Committee

The Internal Control Committee oversees and promotes internal control activities throughout Kao, with the aim of ensuring the accuracy of financial reporting and enhancing the quality of internal control establishment and operation through cross-organizational integration of functions pertaining to internal control.

9 Department of Internal Audit

Conducts internal audits on management activities in general from the perspective of comply with laws and regulations, the appropriateness of financial reporting, and administrative effectiveness and efficiency. It also regularly makes reports to the Management Committee and the Board of Directors.

10 Accounting Auditor

Deloitte Touche Tohmatsu LLC is the audit firm appointed as the Accounting Auditor based on the Companies Act, and for accounting audits based on the Financial Instruments and Exchange Act.

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

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

	Name	Period of appointment (upon conclusion of the March 2021 Shareholders Meeting)	Board of Directors	Audit & Supervisory Board	Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members	Compensation Advisory Committee	Compensation Advisory Committee for Audit & Supervisory Board Members	Attendance (FY2020)	
								Board of Directors	Audit & Supervisory Board
Directors	Michitaka Sawada	12 years 9 months	○			○		14/14	—
	Yoshihiro Hasebe	5 years	○			○	○	14/14	—
	Toshiaki Takeuchi	7 years	○			○		14/14	—
	Tomoharu Matsuda	2 years	○			○		14/14	—
	Sonosuke Kadonaga	8 years 9 months	◎		◎	◎	○	14/14	—
	Osamu Shinobe	3 years	○		○	○		14/14	—
	Chiaki Mukai	2 years	○		○	○		14/14	—
	Nobuhide Hayashi	2 years	○		○	○		14/14	—
Audit & Supervisory Board Members	Hideko Aoki	2 years	○	◎				14/14	8/8
	Sadanao Kawashima	— *1	○	○				—	—
	Hideki Amano	4 years	○	○	○	○	◎	14/14	8/8
	Nobuhiro Oka	3 years	○	○	○	○	○	14/14	8/8
	Takahiro Nakazawa	1 year	○	○	○	○	○	12/12*2	6/6*2

*1 Appointed to and assumed the position at the March 2021 Shareholders Meeting.

*2 The Board of Directors met 12 times, and the Audit & Supervisory Board met 6 times, since Mr. Nakazawa assumed the position.

Reasons for Appointment of Outside Directors and Outside Audit & Supervisory Board Members

In nominating candidates for Outside Directors, Kao emphasizes having wide-ranging experience, knowledge and insight, as well as taking into account the issue of independence. In nominating candidates for Outside Audit & Supervisory Board Members, emphasis is placed on whether candidates possess the high level of expertise and insight in accounting and finance, and in law, necessary for auditing, and whether they have extensive experience as well as possessing high ethical standards as a professional. Importance is also attached to meeting the legal requirements to be classed as an Outside member, and to be considered independent.

	Name	Reasons for appointment
Outside Directors	Sonosuke Kadonaga	He has a high level of insight related to international corporate management gleaned from his considerable experience at a foreign-affiliated consulting company and has served as the Chairman of the Board of Directors since March 2014, where he has contributed to highly engaging discussions that transcend the boundaries of Inside and Outside Directors.
	Osamu Shinobe	He has considerable experience and expertise in relation to global corporate management and risk management able to meet changing needs in the business environment, including involvement for many years in the maintenance division of a globally operating airline company where safety and reliability are the top priority, and he offers opinions and valuable suggestions on matters material to our group management.
	Chiaki Mukai	As an astronaut and a doctor, she has a high level of expertise in the scientific fields, and at Board of Directors meetings, she actively offers opinions and suggestions leveraging her experience and insights as well as her perspective as a woman on matters material to our group management.
	Nobuhide Hayashi	He has an abundance of experience and a high level of insight in global corporate management to address changing needs, including many years of international experience in finance and finance affairs and serving as a management executive while the world of finance was experiencing changes in the global business environment, and offers valuable opinions and suggestions on matters material to our group management.
Outside Audit & Supervisory Board Members	Hideki Amano	He has a high level of specialist expertise as a certified public accountant, and has extensive global experience at a leading auditing firm. Making full use of the experience and insights he has acquired as a member of management he has been serving as an Audit & Supervisory Board Member at Kao Corporation since March 2017, and has conducted auditing for the Kao Group effectively based on a professional perspective.
	Nobuhiro Oka	As a lawyer, he has expert insights and considerable experience in corporate legal affairs and corporate governance, and has a high level of insight into our group's business from serving as an Audit & Supervisory Board Member of principal subsidiary since 2014.
	Takahiro Nakazawa	He has expertise as a certified public accountant and has been involved in auditing work for large companies at a leading auditing firm, and has a high level of insight pertaining to governance and internal controls at global companies, including from advisory work relating to the introduction of U.S. accounting standards and International Financial Reporting Standards (IFRS).

Kao's Approach to Corporate Governance

Initiatives to Enhance the Effectiveness of the Board of Directors

Kao is implementing the following initiatives to ensure that the Board of Directors fulfills its roles and responsibilities in relation to oversight of operational execution and decision-making. The effectiveness of the Board of Directors is

being enhanced by promoting the timely and appropriate provision of information to Outside Directors and by fostering open, frank and constructive discussion and exchange of views between Outside and Inside Directors.

Initiatives to Ensure Full Utilization of the Functions of Outside Directors

Specific Initiatives	Frequency of implementation	Content
● Provision of information prior to meetings of the Board of Directors	Monthly	To facilitate productive discussions at meetings of the Board of Directors, relevant materials are distributed beforehand to promote understanding of matters such as the background, purpose and content of agenda items.
● Appointment of an Outside Director as Chairman of the Board of Directors	—	By appointing an Outside Director to serve as Chairman of the Board of Directors, an environment has been created that fosters the eliciting of views based on a perspective that is neutral and independent from the executive function, thereby facilitating more appropriate discussion.
● Arranging for the Chairman of the Board of Directors to sit in on meetings of the Management Committee	Three to four times a month	Having the Chairman of the Board sit in on meetings of the Management Committee, which constitutes the highest executive decision-making body, creates opportunities for the chairman to directly access information relating to important executive issues and the state of discussion regarding those issues. Building on this, when meetings of the Board of Directors are held, the chairman can share the information he/she possesses regarding the background to the issues with the other Outside Directors, which makes it easier to get to the heart of the discussions more quickly.
● Arranging for Outside Directors to attend R&D presentations	Annually	Having Outside Directors sit in on R&D presentations creates opportunities for them to directly access internal information relating to R&D strategy and the state of progress in R&D, etc. Giving Outside Directors a more in-depth understanding of internal activities in this way leads to invigorated discussion in meetings of the Board of Directors.
● Holding meetings at which Outside Directors and Audit & Supervisory Board Members can exchange views	Three times a year	In creating regular opportunities for meetings, the aim is to facilitate the active exchange of views regarding issues identified during auditing conducted by Audit & Supervisory Board Members, and the making of proposals to address these issues where necessary.
● Worksite visits	Annually	Having Outside Directors visit Kao's markets, offices, factories and retailers creates opportunities for them to directly access information relating to the frontline of our operations. In past years, Outside Directors have also visited worksites outside Japan. However, in FY2020, due to the spread of the COVID-19 pandemic, visits were only made to worksites within Japan (specifically, the Wakayama Plant).



Board of Directors

The Board of Directors is structured appropriately, with a good balance of Directors from inside and outside the company who possess diverse experience and expertise. The board undertakes decision-making in regard to important matters such as management strategy, etc., as well as monitoring strategy execution. In FY2020, the board held monthly discussions to consider status reports relating to the COVID-19 pandemic, its impact on business activities

and the initiatives being adopted in response. In addition, the board engaged in an open, wide-ranging exchange of views to formulate the new Kao Group Mid-term Plan 2025 (K25). In addition to the items noted on the next page, each month the board receives business execution reports from Directors currently serving as Executive Officers, as well as receiving reports on matters discussed during meetings of the Management Committee from the Executive Officer in charge.

Major Topics Discussed by the Board of Directors in FY2020

First Quarter	<ul style="list-style-type: none"> ● Evaluation of the effectiveness of the Board of Directors ● Department of Internal Audit semi-annual reports ● Audit & Supervisory Board Members' audit report summaries 	Second Quarter	<ul style="list-style-type: none"> ● Mid-term plans (K20 and K25) ● Cosmetics Business strategy ● Current status of Research & Development and topics ● Compliance Committee annual reports
Third Quarter	<ul style="list-style-type: none"> ● Mid-term plan (K25) ● Department of Internal Audit semi-annual reports ● Deliberations relating to the appointment of a new President & CEO 	Fourth Quarter	<ul style="list-style-type: none"> ● Mid-term plan (K25) ● Research & Development progress report ● Internal Control Committee activities report ● Cross-shareholdings status report ● New employee empowerment system

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. Kao believes that it is effective for all of those who participate in meetings of the Board of Directors to perform evaluation by expressing their own opinions and engaging in free and open discussions, and so evaluation of Board effectiveness is performed using self-assessment. For the FY2020 evaluation, once again, a survey was conducted, and feedback on the survey results were provided before engaging in discussion and exchange of opinions.

Efforts to address issues pointed out in the FY2019's evaluation

- Discussion of the broad direction of corporate strategy: While adequate discussion did take place, there was a need for further discussion of the company's global strategy, M&A strategy and human capital strategy.
- Human capital development strategy: While a certain amount of discussion did take place, the board failed to engage in adequate discussion that was focused on specific issues. There was a need for more in-depth discussion of how to identify the types of human capital required in order to realize K25, of ways to clarify the state of utilization of the OKR new employee empowerment system, and of next-generation human talent cultivation, etc.
- Internal controls to realize compliance: While improvement has been seen in terms of initiatives to ensure rapid reporting of bad news, realize in-depth exploration of the causes of problems, and expand the scope of investigation, etc., there is a need for further improvement in terms of systems and operation. There is also a need to clarify the relative importance of individual issues, and to engage in discussion regarding whether, currently, the functions for preventing major incidents in advance are operating at the desired level.

Current state of discussion regarding the Kao Group Mid-term Plans (K20 and K25)

● Discussion and oversight regarding the achievement of K20

The main focus of discussion in relation to the realization of the goals of K20 has been on oversight regarding the response to COVID-19 pandemic, with clear distinctions being made as to whether a particular issue derives from the COVID-19 pandemic or not.

● Discussion regarding the formulation of K25

The process of formulating K25 has involved a lively exchange of opinions, and adequate discussion, over an extended period of time, which deserves a positive evaluation. However, in the future there is still a need for more discussion regarding the specifics of the K25 plan.

● The vision for future discussion and oversight of the implementation of K25

There is a need for the putting in place of a framework to facilitate monitoring and for ongoing discussion. Discussion is also needed regarding decision-making in relation to the large-scale investment required for the implementation of K25, and the effectiveness of such investment, as well as regarding large-scale strategic initiatives and strategies to resolve issues that hinder implementation of K25. There is also a need to monitor the status of implementation of related activities by company employees.

● Ensuring that the composition of the Board of Directors is oriented toward realization of K25

While the Board of Directors is already reasonably well-balanced, with a composition that falls within an appropriate level, Kao needs to strive for further improvement based on ongoing discussion of diversity. In regard to executive officers as well, Kao needs to consider making more efforts to recruit from outside the company, and to do more to recruit younger people, women and people with a track record of successful performance in overseas businesses.

Issues to be addressed by the Board of Directors

- To realize the achievement of K25, there is a need for timely sharing of concrete information regarding the current situation, as well as for ongoing discussion based on diverse viewpoints.
- There is a need for ongoing discussion of the human capital strategy. What is required is an intensification of discussion regarding the strategic direction that Kao needs to be heading in, as well as discussion of how to retain and cultivate the types of human capital that are needed in order to realize K25.
- With regard to internal controls, there is a need for ongoing monitoring of system establishment and of whether systems are operating properly, so that the control system can function more effectively throughout the group.

In addition to the above, evaluation was also performed of the overall state of operation of the Board of Directors, and of its deliberations. Furthermore, operation of the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members, and of the Compensation Advisory Committee, including deliberation of matters relating to the appointment of a new President and Chief Executive Officer and the adjustment of the compensation system, was evaluated and deemed to be appropriate.

Kao's Approach to Corporate Governance

Initiatives Relating to Auditing

Audit & Supervisory Board Members attend the Board of Directors meetings, audit the state of compliance with relevant laws and with Kao's Articles of Incorporation, the management decision-making process and the status of development and operation of the internal control environment, etc., and provide opinions as necessary.

In FY2020, based on the initiatives adopted by Kao to prevent the spread of COVID-19, audit quality was maintained by incorporating remote auditing activities.

Full-time Audit & Supervisory Board Members attend important meetings such as those of the Management

Committee, Internal Control Committee and other relevant committees. In addition, they conduct on-site visit to factories and research laboratories, interview business units and functional divisions, and conduct surveys of affiliated companies both within and outside Japan. Outside Audit & Supervisory Board Members also participate in such activities where appropriate. Based on the findings and opinions obtained through these audit activities, the Audit & Supervisory Board holds meetings to exchange opinions with Representative Directors of the company, as well as holding meetings with Outside Directors, and makes suggestions as necessary.

Key Audit Items in FY2020

The Audit & Supervisory Board has established the following key audit items which are of fundamental importance, and implements auditing with respect to these items.

- Audits relating to Directors' execution of their duties
- Audits of the status of development and operation of the internal controls system
- Audits of crisis management, risk management and compliance risk
- Audits relating to financial reporting and disclosure
- Audits of the data retention management system

Evaluation of the effectiveness of the Audit & Supervisory Board

The Audit & Supervisory Board conducts an annual evaluation of the effectiveness of the activities of the Audit & Supervisory Board members and the Audit & Supervisory Board. At an Audit & Supervisory Board Meeting held in February 2021, each Audit & Supervisory Board member expressed their opinions on the activities in FY2020, referring to the checklist of focus points for "Self-Evaluation of the Effectiveness of Audit & Supervisory Board Members and Audit & Supervisory Board," and based on these opinions, all members discussed and evaluated the activities. The results were reported to the Board of Directors and will be incorporated into the audit plan for FY2021 to further enhance activities. The main results of the evaluation are as follows.

Current status

- Audit & Supervisory Board Members attend the meetings of the Board of Directors, audit the management decision-making process and the status of development and operation of the internal control environment from the perspective of legality and appropriateness, and provide opinions as necessary.
- Full-time Audit & Supervisory Board Members attend important meetings such as meetings of the Management Committee, Internal Control Committee and subordinate committees to confirm whether the execution status and the development and operation of internal control are properly implemented. They also perform auditing of factories and research laboratories, business divisions, function divisions and subsidiaries located both within and outside Japan, with Outside Audit & Supervisory Board Members participating too as appropriate. In FY2020, based on measures to prevent the spread of the infection of COVID-19, remote audits were used in combination to maintain audit quality.
- Audit & Supervisory Board Members hold meetings to exchange opinions with the Representative Directors of the company and its important subsidiaries, as well as with the Outside Directors, based on the findings and opinions obtained through these auditing activities, and make recommendations as necessary.

- Audit & Supervisory Board Members exchange opinions frankly with each other based on their experience and expertise, while incorporating objective viewpoints, and generally function effectively.
- The Audit & Supervisory Board has the opportunity to report regularly on the activities of the Audit & Supervisory Board at the Board of Directors meeting.
- At meetings held to exchange opinions with Auditors of domestic group companies, opportunities are provided for Outside Audit & Supervisory Board Members to give addresses, and an exchange of views is held regarding Auditors' activities and internal controls at individual group companies.

Activities

- Attendance at important meetings: 69 times
- Meetings to exchange opinions with Directors: 6 times
- Auditing of factories and research laboratories, business divisions, function divisions and subsidiaries located both within and outside Japan: 105 times (First Defense Line: 90 times; Second Defense Line: 15 times)
- Three-way audit related activities: 44 times

Issues

At the start of the Kao Group Mid-term Plan 2025 (K25), the following proposals and discussions will be made in order to respond appropriately and flexibly to changes in the business environment and business expansion.

- Make recommendations to improve the effectiveness and efficiency of both the development and operation of internal controls on a global basis
- Strengthen the system to enable the auditors of subsidiaries to function more effectively
- Continuously review the way in which audits are implemented

Internal Audit Status

The Department of Internal Audit reports directly to the President and Chief Executive Officer. It conducts internal audits on management activities of Kao and Kao Group companies in general from the perspective of complying with laws and regulations, the appropriateness of financial reporting and administrative effectiveness and efficiency. Besides providing reasonable assurance as to the effectiveness of the company's internal controls, the department also aims to further enhance the internal controls system by proposing improvements. The results of internal audit activities are reported to the Management Committee and the Board of Directors at regular intervals.

Regarding management of subsidiaries, the Group Company Policy Manual stipulates which items subsidiaries are required to obtain approval for from Kao

in advance, and which items they are required to report to Kao. In accordance with the policy manual, the findings of internal audits conducted by the Department of Internal Audit, as well as initiatives implemented in response and the outcomes of such initiatives, are shared with the board of subsidiaries.

The Department of Internal Audit exchanges information and opinions regarding the current state of internal audit activities with Audit & Supervisory Board Members on a regular basis and as needed. In addition, with regard to the development or evaluation of internal controls relating to financial reporting and the current state of related internal audit activities, the Department of Internal Audit shares information as appropriate with the Accounting Auditor, and strives for effective mutual coordination with the Accounting Auditor.

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

The compensation system for Directors, Audit & Supervisory Board Members and Executive Officers is aimed at (1) securing and retaining diverse, outstanding talent so as to establish and enhance competitive advantage, (2) promoting prioritized actions for realizing continuous increases in corporate value and (3) sharing interests in common with shareholders. Starting in FY2017, we have introduced a performance-based share incentive plan for our 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 improvements in our financial performance and corporate value over the mid-to long-term.

Regarding Kao's share incentive plan, in order to promote the vision of "contributing to an 'enriched sustainable world' and growing the businesses of the company through proactive engagement in ESG activities

and investment" which is one of the goals of K25 that was initiated in FY2021, we have made adjustments to the long-term incentive compensation indicators starting from FY2021.

As regards short-term incentive compensation, while the exact percentage varies between the President and Chief Executive Officer, Inside Directors and other Executive Officers, in all cases EVA and consolidated net sales and income are used as the evaluation indicators. EVA, which is a management indicator to which we attach great importance, has been adopted as an evaluation indicator in order to provide motivation for enhancing corporate value through the implementation of long-term strategies that contribute toward the resolution of ESG issues. With regard to the adoption of consolidated net sales and income as evaluation indicators, this represents a goal that is shared with ordinary employees. It provides motivation for realizing profitable growth through day-to-day business activities, and can help to foster a sense of unity with employees.

Kao's Approach to Corporate Governance

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

	Base salary	Short-term incentive compensation		Long-term incentive compensation		
		Bonus	EVA®-linked part	Consolidated net sales/profit-linked part	Share incentive	
Method of provision	Amount determined in accordance with role and rank, and provided as fixed monthly compensation	Amount of bonus determined in accordance with degree of achievement of single fiscal-year targets and provided		Kao shares, etc., are delivered within a five-year target period covered by the current mid-term plan • Fixed part: Deliver a set number of shares, etc. each year • Variable part: Delivery of shares, etc. when executive officers resign from their post in accordance with the results achieved in initiatives and activities undertaken as part of the mid-term plan The compensation structure is set at 70% variable and 30% fixed.		
Clawback	No	No	Yes (in the case of a serious compliance violation, etc. by the individual in question, the compensation may not be paid, or may be required to be repaid)			
Performance evaluation period	–	One year	Five years (2021–2025)			
Evaluation indicator	–	EVA®	• Consolidated net sales • Income (Gross Profit Less Selling and General and Administrative Expenses)	Business growth	ESG activities	Top management activities
Evaluation criteria	–	Degree of target achievement	Degree of target achievement Degree of year-on-year improvement	Business growth rate of net sales, profit, etc.	Evaluation by external indicators, and extent of achievement of internal goals (such as the Kirei Lifestyle Plan), etc.	Evaluation of management activities by Kao employees, etc.
Coefficient/Determination of payout rate	–	The payout ratio is determined within the range of 0–200% in accordance with the degree of achievement of each indicator.		The coefficient for the variable part is determined within the range of 0–200% in accordance with the degree of achievement of each indicator.		
Compensation structure	–	Bonus amount by position when the payout ratio is 100% • President and Chief Executive Officer: 50% of base salary • Executive Officers with titles: 40% of base salary (except for the President and Chief Executive Officer) • Other Executive Officers: 30% of base salary		The yearly share remuneration amount when the variable component coefficient is 100% • About 40% to 50% of the base salary of the position		
Eligible for provision	• Directors • Executive Officers • Audit & Supervisory Board Members	• Directors (Except for Outside Directors) • Executive Officers		• Directors (Except for Outside Directors) • Executive Officers		
Applicable period	–	One year	Five years (2021–2025)			

Compensation Structure for Directors



* In the case of the Representative Director, President and Chief Executive Officer.
* In the case where the variable component coefficient and the payout rate are both 100%.

Compensation Paid to Directors in FY2020

Classification	Number of persons (Persons)	Aggregate amount of remuneration (Millions of yen)	Amount of remuneration by type (Millions of yen)		
			Base salary	Bonus	Performance-based share incentive
Directors (of Outside Directors)	8 (4)	240 (75)	268 (75)	83 (–)	– 111 (–)
Audit & Supervisory Board Members (of Outside Audit & Supervisory Board Members)	6 (4)	81 (30)	81 (30)	– (–)	– (–)
Total (of Outside Directors and Audit & Supervisory Board Members)	14 (8)	321 (105)	349 (105)	83 (–)	– 111 (–)

Note: 1. The above numbers of Directors/Audit & Supervisory Board Members include one Outside Audit & Supervisory Board Member who resigned at the conclusion of the 114th Annual General Meeting of Shareholders held on March 25, 2020.
2. Regarding performance-based share incentives, as the most recent fiscal year was the final year of implementation of the Kao Group Mid-term Plan K20, performance-based share incentives were confirmed after the conclusion of the final year of implementation of K20, with the inclusion of the performance-based part for the final year. The amount obtained by deducting an amount equivalent to the fixed part of the performance-based share incentives paid up until the most recent fiscal year from the cumulative total disclosed for the period up until the previous fiscal year exceeded the confirmed amount, with the amount of reversal for prior period provisions based on the level of achievement of K20 performance objectives being 216 million yen. As the amount of provisions booked for the most recent fiscal year was 105 million yen, the disparity was shown as a decrease in the above table.

Compensation Paid for Individual Directors in FY2020

Name (Director classification)	Aggregate amount of remuneration (Millions of yen)	Corporate classification	Amount of remuneration by type (Millions of yen)		
			Base salary	Bonus	Performance-based share incentive
Michitaka Sawada (Director)	82	Submitting company	82	39	– 39

Note: 1. Regarding performance-based share incentives, as the most recent fiscal year was the final year of implementation of the Kao Group Mid-term Plan K20, performance-based share incentives were confirmed after the conclusion of the final year of implementation of K20, with the inclusion of the performance-based part for the final year. The amount obtained by deducting an amount equivalent to the fixed part of the performance-based share incentives paid up until the most recent fiscal year from the cumulative total disclosed for the period up until the previous fiscal year exceeded the confirmed amount, with the amount of reversal for prior period provisions based on the level of achievement of K20 performance objectives being 74 million yen. As the amount of provisions booked for the most recent fiscal year was 35 million yen, the disparity was shown as a decrease in the above table. For this reason, the aggregate amount of remuneration obtained by adding performance-based share incentives to base salary and bonuses was 82 million yen, and the aggregate amount of remuneration with performance-based share incentives deducted was 121 million yen.
2. Only Director remuneration amounts totaling over 100 million yen are listed.

ESG Committee

The Kirei Lifestyle Plan (KLP), introduced in April 2019 as a new ESG Strategy for Kao, symbolizes the desire to meet the needs of people who want to live more sustainably by pursuing creativity and innovation. The ESG Committee discusses and decides on the overall direction of activities related to Kao's ESG Strategy. The committee is chaired by the President and Chief Executive Officer, and its members include Senior Managing Executive and Managing Executive Officers. The committee formulates policies and strategies that are related to ESG activities, identifies ESG issues, risks and opportunities, examines the current state of ESG activities, and implements these ESG Strategies company-wide.

Main Items Deliberated on and Approved by the ESG Committee in FY2020

- Confirmation of the ESG Strategy considering the spread of COVID-19
- Deliberation and approval of the ESG Strategy linked to the new Mid-term Plan K25
- Deliberation and approval of the revised draft of the mid- to long-term targets for the KLP
- Examination of the proposals from the ESG External Advisory Board
- Review of the progress made on each KLP action
- Discussion on how ESG performance evaluation should work

ESG External Advisory Board Members

Members					
	Lisa MacCallum	Founder, Inspired Companies. Specialization: Business reforms		Jalal Ramelan	Chairman, ESG Indonesia. Specialization: Sustainable development field
	Rika Sueyoshi	CEO, Ethical Association. Specialization: Ethical consumption		Helmut Schmitz	Director of Communication & Public Affairs, Der Grüne Punkt - Duales System Holding GmbH & Co. KG. Specialization: Ethical consumption

As the world has had to endure hardships from the COVID-19 pandemic, our contributions through business based on our corporate philosophy, including meeting countries' emergency demand for medical and hygiene goods, have been highly rated by Advisory Board

ESG External Advisory Board

The ESG External Advisory Board is made up of external experts who provide advice and suggestions to issues raised by the ESG Committee and offer outside viewpoints that are input into management. They provide information to the ESG Committee to enable the development and implementation of world-class plans, and give advice on the methods adopted by Kao to support the realization of ethical consumption by consumers.

In FY2020, they welcomed Jalal Ramelan (Chairman, ESG Indonesia), an expert on sustainable development, and Helmut Schmitz (Director of Communications & Public Affairs, Der Grüne Punkt - Duales System Holding GmbH & Co. KG), an expert on recycling systems for packaging as new additions to the advisory board, and discussed how to implement the KLP internally and the methods adopted by Kao to support the realization of ethical consumption by consumers.

Proposals and Actions from the FY2020 Advisory Board

- Proposals on expectations for and risks to Kao based on the social situation
- Review and evaluation of the progress made on the KLP
- Proposals on the ESG Strategy linked to the new Mid-term Plan K25

Members. As a suggestion for our future direction, they anticipate greater cooperation with stakeholders and implementation of the Kirei Lifestyle Plan (KLP) while our ESG activities are sustained at a high level.



Message to Kao from the members of the Advisory Board

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/klp-pr-2021-e-07.pdf#page=10

Risk and Crisis Management

Basic Policy

We regard potential negative impacts on the achievement of the management targets and business activities as a “risk,” and the manifestation of such risk as a “crisis.” We appropriately manage the various risks and crises that could occur across our business following the response

Risk and Crisis Management System

The Risk and Crisis Management Committee establishes the management system and activity guideline for risk and crisis management. Divisions, subsidiaries and affiliates conduct risk management by ascertaining and evaluating risks, and formulating and implementing countermeasures based on the activity guideline. In addition, when a crisis arises an Emergency Response

Clarifying Main Risks and Enhancing Our Counter Response

The Risk and Crisis Management Committee and the Management Committee have defined 14 main risks of special importance as risks that could negatively impact our sustainable and profitable growth, and the contributions we make to the sustainability of society through our business activities. The managing divisions have established response policies for these risks and are managing their progress. Of these main risks, we designate risks that would have a particularly large impact on our management and that we need to strengthen

priority detailed in the Kao Risk and Crisis Management Policy (1. Protection of human lives, 2. Environmental conservation, 3. Continuation of operations, 4. Protection of assets).

Team is launched corresponding to the severity of the emergency to promptly and appropriately address the crisis in order to minimize physical damages and financial losses. These efforts are reported to the Management Committee and the Board of Directors at regular intervals and other times as needed.

our response to as “corporate risks.” Once a year, the Management Committee selects risk themes and risk owners (persons responsible for response to themes: Executive Officers) based on internal and external risk analysis and informational interviews with management. The risk owners establish response teams to continue examining the risks, and the Risk and Crisis Management Committee meets four times a year to manage their progress.

VOICE

Message from a Risk and Crisis Management Manager

We have upgraded our risk management framework in the process of responding to COVID-19.



Yasuhisa Otani
Risk Management & Responsible Care, Corporate Strategy

In response to COVID-19 that had begun to spread in at the end of 2019, we set up a crisis management system in January 2020 and established the Emergency Countermeasure Headquarters, chaired by the President, in February. At meetings of the headquarters attended by senior management and country managers, we decided companywide policy on continuance of business activities and corporate citizenship activities with foremost priority placed on protecting our employees and their families, and made united Group efforts to implement the policy.

We have been developing guidelines and action plans for how to respond to pandemic risks since 2016, so we

were able to quickly establish and implement our initial response policy for COVID-19. However, infections spread at a speed and scale that surpassed our projections, with many countries and regions seeing repeated waves of infections. At one point, the headquarters was meeting every week, with senior management leading extensive discussions and implementing our response.

Due to these actions, we were able to prevent infections among Kao Group employees around the world as well as maintain our business activities while also meeting the needs of society, including continuous supply of hygiene-related products, preferential supply of alcohol-based disinfectant and other supplies to medical facilities and facilities for senior citizens, and provision of evidence-based information about sanitation.

We are still continuing these efforts now. We will maximize execution of our business processes while protecting our employees and their families, adapt to the new normal and further strengthen our risk management looking ahead to the achievement of Kao Group Mid-term Plan 2025 (K25).

Corporate Risks and Main Initiatives

Theme	Details of risks	Main initiatives
Pandemics	Risk including damage to employee health and temporary business suspensions occurring due to the global COVID-19 pandemic	<ul style="list-style-type: none"> Ensuring the safety of employees and their families <ul style="list-style-type: none"> Implemented work systems and styles based on infection conditions (promotion of remote work/teleworking, restrictions on business trips and training/events, etc.) Implemented care as applicable for infected employees and family members and those who were in close contact with infected persons, and measures to prevent cluster infections Launched the Infectious Disease Risk Assessment Project to reinforce infection prevention measures in the workplace and at home Continuity of business activities <ul style="list-style-type: none"> To maintain the supply chain, implemented higher-level infection control measures at production sites and rolled them out to subcontractors and other related parties, in addition to conducting relevant activities for raw material procurement Enhanced information systems for remote work and promoted digitalization of operations Reviewed Group systems for new work styles Formulated and implemented a business strategy for dealing with COVID-19 Contributions to society <ul style="list-style-type: none"> Provided a continuous supply of hygiene-related products for cleanliness and worry-free daily life Increased production of alcohol disinfectants to 20 times the previous level and supplied them on a priority basis to medical institutions, nursing facilities and other locations with urgent needs. Through our website, provide information on hygiene in daily life. For medical professionals, provide a wide range of information on measures for preventing the spread of infections based on expert knowledge including academic papers Contributed to the development of therapies and diagnostic tools for COVID-19, including the discovery of VHH antibodies that can be expected to inhibit infection.
Large-scale earthquakes and other natural disasters	Risk of harm to employees and assets including facilities and difficulties in supplying products as a result of large-scale earthquakes and other natural disasters such as large typhoons and floods associated with climate change	<ul style="list-style-type: none"> Conduct surveys of water-related risks at each business location, and strengthen physical and non-physical countermeasures Conduct disaster preparedness education including verifying flood hazard maps and evacuation measures Strengthen our response through emergency response drills and BCP drills to prepare for major earthquakes and other events
Environmental legislation outside of Japan	Risk of business or operations being suspended due to drastic changes to environmental legislation	<ul style="list-style-type: none"> Monitor using external specialist organizations and reinforce our response structure regarding impacts on local plants and key suppliers from drastic changes to environmental legislation in China
Serious quality issues	Risks of serious quality issues arising that would cause the loss of social trust	<ul style="list-style-type: none"> Strengthen company-wide response in the event of serious damage arising due to a quality problem Strengthen internal awareness-rising to prevent serious quality problems from arising
Cyberattacks and protection of personal information	Risk of leaks of personal information from intentional acts including cyberattacks or negligence	<ul style="list-style-type: none"> Create response flows in the event of an incident arising and hold drills Strengthen our global framework for information security and protection of personal information
Reputation	Risks that cause value and social trust in our brand to decline due to the spread of critical reviews and misinformation about Kao on social media	<ul style="list-style-type: none"> Strengthen the social media monitoring system Strengthen the emergency contact system used during contingencies
Use of digital media	Risks arising from the release of ads and other communications with inappropriate expressions, stealth marketing, etc.	<ul style="list-style-type: none"> Continuously strengthen internal education, and revise guidelines and the like Develop ad distribution tools to improve and sustain our brand value



Financial Report 2020

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/investor-relations/pdf/financial-reports-fy2020e-01.pdf

For more information about the content of the main risks faced, and the main initiatives being taken to address them, see the “Business Risks and Other Risks” Section of our Financial Report 2020.

Compliance

Basic Philosophy

Kao regards Integrity, the core value inherited from its founder, as the starting point of its compliance. To justify the support and trust of all of our stakeholders, we implement our compliance promotion activities through the PDCA cycle outlined below.

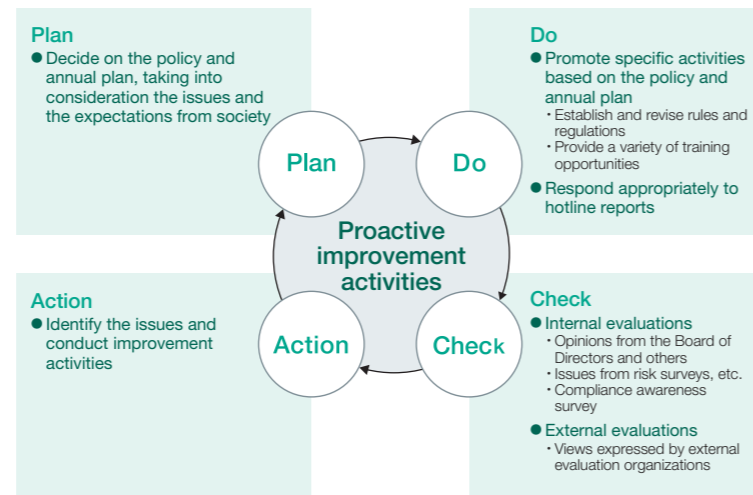
The Compliance Committee decides on policies and the annual plan. The Compliance Committee Secretariat converts these into concrete activities, which are then promoted by the group companies and divisions within and outside Japan. Incidents that arise are reported to the Compliance Committee,

Management Committee and the Audit & Supervisory Board, and based on their review, issues are identified and activities to improve them are promoted. In addition, after review, the Compliance Committee reflects issues identified from the results of the compliance awareness survey, as well as external surveys, in activities for promotion during the following year. Annual reports are also made to the Board of Directors, with improvement activities implemented based on the resulting discussion.

Compliance Structure



Compliance PDCA Cycle



Initiatives to Enhance Compliance

To instill the Kao Business Conduct Guidelines (BCG), which embody specific activities promoting the Integrity that is part of the Kao Way, we promote activities focused on reducing serious compliance risks. In addition, we strive to promote an open workplace atmosphere that allows discovered improprieties to be immediately reported to management and an appropriate response promptly be taken. Anti-bribery and anti-corruption are clearly defined in the BCG as well, and we have also established the Kao Anti-bribery (anti-corruption) Guidelines, which specify the monetary standards and prior reporting obligations for giving and receiving of entertainment and gifts. Moreover, we promote anti-bribery and anti-corruption management practices, such as evaluating bribery risks associated with distributor selection and contract renewal.



Kao Business Conduct Guidelines (BCG)

Initiatives to Enhance Compliance

Categories	Initiatives
Rules and Regulations	2002 Revision of Corporate Principles 2003 Business Conduct Guidelines (BCG) 2014 Anti-bribery (anti-corruption) Guidelines 2018 Rules for Improprieties Reporting 2020 Rules for Operating Compliance Hotlines/ Rules for Improprieties First Report
Organization	2000 Corporate Ethics Committee 2003 Compliance Committee
Compliance Hotline	2000 Compliance Hotline and Kao Consultation Room 2003 Lawyer's Compliance Hotline and External-access Compliance Hotline 2007 International Compliance Hotline (anonymous) 2019 Japan Compliance Hotline (anonymous)
Trainings and Announcements	2003 BCG Seminar 2005 Stratified trainings 2008 Commencement of training for group companies outside Japan 2012 Training for managers 2016 Introduction of Compliance Awareness Month
Effectiveness Measurement	2000 Self-check at each division 2015 Activities to solicit employee opinion 2016 Compliance awareness survey 2018 Risk surveys (in coordination with Risk and Crisis Management Department)

Kao Business Conduct Guidelines (BCG)
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/compliance_all.pdf
 Please see Kao's corporate website for more information about the Kao Business Conduct Guidelines (BCG).

Compliance Education

Role-specific compliance training is given to employees entering the company or receiving promotion. In addition, all employees are given periodic compliance review opportunities, undergoing training as organized by the leader of their division and taking BCG refresher tests. Training opportunities on legal and compliance themes are also

provided every year for Executive Officers. One month of the year is also designated as Compliance Awareness Month, and the importance of thoughtful words and actions as well as an open organizational culture is communicated among other topics. Education related to laws and regulations is planned and conducted by designated managing divisions.

Compliance Training System

Training name	Target group	Objective	Frequency
New Employee Orientation	New employees	Study our compliance approach and the BCG	On joining
Training for managers	Japan: New managers Outside Japan: Managers	Group work to build managers' awareness for compliance risk reduction	Japan: When promoted to Manager Outside Japan: Every 3 years
Trainings by division leaders	Managers/Non-manager employees	Division leaders directly communicate the message to employees to make compliance relevant to them personally	Once every 2 years (alternate each year between Japan/outside Japan)
BCG refresher test	Executives/Managers/Non-manager employees	Revisit the BCG and identify divisions with high compliance risks	Once every 2 years (alternate each year between Japan/outside Japan)
BCG Casebook	Managers/Non-manager employees	Study the BCG using specific cases	Revise after revisions to the BCG
Compliance case studies	All employees	Study compliance points to keep in mind through cases at Kao and other companies	Japan: Monthly Outside Japan: Semiannually (April, October)
Executive training sessions	Executive Officers and above	Legal and compliance risk from a management perspective	Annually

Number of Serious Compliance Violations*

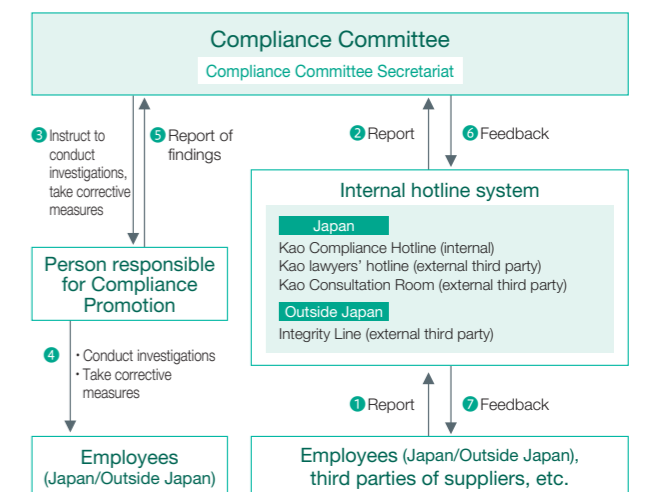
Target value	2017	2018	2019	2020
0	0	0	0	0

* The term "serious compliance violations" is used to refer to compliance violations that seriously impact Kao's operations or cause a serious loss of corporate value.

Compliance Hotline System

Kao has created various systems to find improprieties at an early stage. We have established compliance hotlines in the countries and regions where we operate, protect whistleblowers in accordance with Rules for Operating Compliance Hotlines, and promptly conduct investigations and take corrective measures to resolve any issues.

The causes of compliance issues identified via cases reported to the hotline or by management are analyzed by the division where they occurred or which has supervisory responsibility, and measures are formulated to prevent recurrence. The Compliance Committee Secretariat undertakes to enhance compliance by reviewing the appropriateness of these measures and considering whether the measures should be implemented at other divisions.



TOPICS

Fifteen consecutive years on one of the World's Most Ethical Companies® 2021 list

The Ethisphere Institute develops and shares best practices in business ethics and corporate social responsibility. This award recognizes companies which have demonstrated outstanding performance in transparency, integrity, ethics and compliance. We regard being selected as one of the World's Most Ethical Companies® as an important indicator for the achievement of compliance activities. This award is one of the elements taken into account when evaluating compensation for Directors (excluding Outside Directors) and Executive Officers.



Directors, Audit & Supervisory Board Members and Executive Officers (As of March 26, 2021)



Toshiaki Takeuchi
Representative Director,
Senior Managing Executive Officer

Michitaka Sawada
Director, Chair

Yoshihiro Hasebe
Representative Director,
President and Chief Executive Officer

Tomoharu Matsuda
Representative Director,
Managing Executive Officer



Sonosuke Kadonaga
Outside Director,
Chairman of the Board of Directors

Osamu Shinobe
Outside Director

Takahiro Nakazawa
Outside Audit & Supervisory
Board Member

Nobuhiro Oka
Outside Audit & Supervisory
Board Member

Chiaki Mukai
Outside Director

Sadanao Kawashima
Full-time Audit & Supervisory
Board Member

Hideko Aoki
Full-time Audit & Supervisory
Board Member

Nobuhide Hayashi
Outside Director

Hideki Amano
Outside Audit & Supervisory
Board Member

Directors and Audit & Supervisory Board Members

(As of March 26, 2021)

Directors

Title, Name, Number of Shares	Profile
 <p>Michitaka Sawada Director, Chair Date of birth: Dec. 20, 1955 Number of Kao shares held: 38,400 shares Other material position(s) Outside Director, Panasonic Corporation</p>	<p>Apr. 1981 Jul. 2003 Jun. 2006 Apr. 2007 Jun. 2008 Jun. 2012 Jan. 2014 Jan. 2016 Jan. 2019 Jan. 2021</p> <p>Joined Kao Corporation Vice President, Sanitary Products Research Laboratories Executive Officer Vice President, Global Research & Development, Human Health Care Director, Executive Officer Representative Director, President and Chief Executive Officer Responsible for Product Quality Management Responsible for Corporate Strategy Responsible for Human Capital Development Director, Chair (current)</p>
 <p>Yoshihiro Hasebe Representative Director, President and Chief Executive Officer Date of birth: Jul. 30, 1960 Number of Kao shares held: 11,900 shares</p>	<p>Apr. 1990 Mar. 2011 Jan. 2014 Mar. 2014 Mar. 2015 Jan. 2016 Mar. 2016 Jan. 2018 Apr. 2018 Jan. 2019 Mar. 2019 Jan. 2021</p> <p>Joined Kao Corporation Vice President, Research and Development – Beauty Research – Hair Beauty Research Vice President, Research and Development – Core Technology; Vice President, Research and Development – Eco-Innovation Research Executive Officer Senior Vice President, Research and Development, Global Managing Executive Officer Director, Managing Executive Officer Director, Senior Managing Executive Officer Senior Vice President, Strategic Innovative Technology, Global Responsible for Compliance Representative Director, Senior Managing Executive Officer Representative Director, President and Chief Executive Officer; Responsible for Human Capital Development (current)</p>
 <p>Toshiaki Takeuchi Representative Director, Senior Managing Executive Officer Date of birth: Mar. 22, 1959 Number of Kao shares held: 26,900 shares</p>	<p>Apr. 1981 Mar. 2006 Mar. 2009 May 2011 May 2012 Jun. 2012 Apr. 2013 Mar. 2014 Jan. 2016</p> <p>Joined Kao Corporation Vice President, Kyushu Office, Kao Customer Marketing Co., Ltd. Vice President, Corporate Planning, Kao Customer Marketing Co., Ltd. Director, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd. Representative Director, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd. Executive Officer Representative Director, Executive Vice President, Kao Customer Marketing Co., Ltd. Representative Director, Managing Executive Officer; Representative Director, President, Kao Customer Marketing Co., Ltd. Representative Director, Senior Managing Executive Officer (current); Representative Director, President, Kao Group Customer Marketing Co., Ltd. (current)</p>
 <p>Tomoharu Matsuda Representative Director, Managing Executive Officer Date of birth: Nov. 15, 1959 Number of Kao shares held: 11,100 shares</p>	<p>Apr. 1983 Jan. 2008 Mar. 2010 Mar. 2013 Mar. 2014 Jan. 2018 Mar. 2019 Mar. 2021</p> <p>Joined Kao Corporation President, Kao (Hong Kong) Ltd. Chairman and General Manager, Kao (Taiwan) Corporation President, Beauty Care, Skin Care and Hair Care Business Unit, Global Executive Officer Managing Executive Officer; Senior Vice 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; Chairman of the Board, Oribe Hair Care, LLC Director, Managing Executive Officer; President, Consumer Products, Global (current); Responsible for Kao Professional Services Co., Ltd. (current) Representative Director, Managing Executive Officer (current)</p>
 <p>Sonosuke Kadonaga Outside Director, Chairman of the Board of Directors Date of birth: Aug. 5, 1952 Number of Kao shares held: 13,000 shares Other material position(s) President, Intrinsic Director, Business Breakthrough, Inc. Outside Director, Chairperson of the Audit & Supervisory Committee, Sumitomo Mitsui Banking Corporation Vice President, Business Breakthrough University</p>	<p>Apr. 1976 Jun. 1981 Aug. 1986 Jul. 2009 Jun. 2012</p> <p>Joined Chiyoda Corporation Masters in Science in Chemical Engineering, Massachusetts Institute of Technology, School of Engineering, U.S.A. Joined McKinsey & Company, Inc., Japan President, Intrinsic (current) Director, Kao Corporation (current)</p>
 <p>Osamu Shinobe Outside Director Date of birth: Nov. 11, 1952 Number of Kao shares held: 700 shares Other material position(s) Special Advisor, ANA HOLDINGS INC.</p>	<p>Apr. 1976 Jun. 2007 Apr. 2009 Jun. 2011 Apr. 2012 Apr. 2013 Apr. 2017 Mar. 2018 Apr. 2019</p> <p>Joined ALL NIPPON AIRWAYS CO., LTD. (currently, ANA HOLDINGS INC.) Member of the Board, ALL NIPPON AIRWAYS CO., LTD. Executive Vice President (<i>jomu torishimariyaku</i>), ALL NIPPON AIRWAYS CO., LTD. Executive Vice President (<i>senmu torishimariyaku</i>), ALL NIPPON AIRWAYS CO., LTD. Senior Executive Vice President, ALL NIPPON AIRWAYS CO., LTD. Member of the Board, ANA HOLDINGS INC.; President and Chief Executive Officer, ALL NIPPON AIRWAYS CO., LTD. Member of the Board, Vice Chairman, ANA HOLDINGS INC. Director, Kao Corporation (current) Special Advisor, ANA HOLDINGS INC. (current)</p>

 Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance_002.pdf

Title, Name, Number of Shares	Profile
 <p>Chiaki Mukai Outside Director Date of birth: May 6, 1952 Number of Kao shares held: 1,600 shares Other material position(s) Specially Appointed Vice President, Tokyo University of Science Astronaut Medical Doctor M.D., Ph.D. Outside Director, Fujitsu Limited</p>	<p>Apr. 1977 Aug. 1985 Jun. 1987 Sept. 1992 Apr. 2000 Apr. 2015 Jan. 2016 Apr. 2016 Mar. 2019</p> <p>Staff, Department of Surgery, Keio University School of Medicine Payload Specialist, the National Space Development Agency of Japan (currently, the Japan Aerospace Exploration Agency; JAXA) Visiting Scientist, Division of Cardiovascular Physiology, Space Biomedical Research Institute, NASA Johnson Space Center Research Instructor of the Department of Surgery, Baylor College of Medicine Visiting Professor of the Department of Surgery, Keio University School of Medicine (current) Vice president, Tokyo University of Science; Senior Technical Advisor, JAXA Corporate Executive Fellow, Kao Corporation Specially Appointed Vice President, Tokyo University of Science (current) Director, Kao Corporation (current)</p>
 <p>Nobuhide Hayashi Outside Director Date of birth: Mar. 27, 1957 Number of Kao shares held: 400 shares Other material position(s) Senior Advisor, Mizuho Bank, Ltd. Outside Director, Baroque Japan Limited Outside Audit & Supervisory Board Member, JTB Corp. Outside Auditor, Tobu Railway Co., Ltd.</p>	<p>Apr. 1980 Apr. 2007 Apr. 2009 Jun. 2011 Apr. 2013 Jun. 2013 Jul. 2013 Apr. 2014 Apr. 2017 Mar. 2019 Apr. 2019</p> <p>Joined The Fuji Bank, Limited Executive Officer – Corporate Banking Division #13, Mizuho Corporate Bank, Ltd. Managing Executive Officer – Japanese Business Promotion, Mizuho Corporate Bank, Ltd. Managing Director and Head of International Banking Unit, Mizuho Corporate Bank, Ltd. 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. Director, Deputy President, Mizuho Financial Group Inc. Representative Director, Deputy President, Mizuho Bank, Ltd. Representative Director, President and CEO, Mizuho Bank, Ltd. Director, Chairman, Mizuho Bank, Ltd. Director, Kao Corporation (current) Senior Advisor, Mizuho Bank, Ltd. (current)</p>

Audit & Supervisory Board Members

Title, Name, Number of Shares	Profile
 <p>Hideko Aoki Full-time Audit & Supervisory Board Member Date of birth: Aug. 21, 1954 Number of Kao shares held: 22,235 shares</p>	<p>Aug. 1982 Apr. 2007 Jun. 2010 Mar. 2015 Jan. 2019 Mar. 2019</p> <p>Joined Kao Corporation Vice President, Product Quality Management Division Executive Officer Managing Executive Officer Responsible for Special Missions Full-time Audit & Supervisory Board Member (current)</p>
 <p>Sadanao Kawashima Full-time Audit & Supervisory Board Member Date of birth: May 22, 1959 Number of Kao shares held: 0 shares</p>	<p>Apr. 1983 Apr. 2007 Jun. 2011 Sept. 2015 Mar. 2019 Mar. 2021</p> <p>Joined Kao Corporation Audit & Supervisory Board Member, Kanebo Cosmetics Inc. Vice President, Investor Relations Group, Corporate Strategy General Manager, Department of Internal Audit Audit & Supervisory Board Member with title, Office of the President, Business Management Support Full-time Audit & Supervisory Board Member (current)</p>
 <p>Hideki Amano Outside Audit & Supervisory Board Member Date of birth: Nov. 26, 1953 4,000 shares Other material position(s) Certified Public Accountant Outside Director, TOPPAN FORMS CO., LTD. Outside Audit & Supervisory Board Member, Ajinomoto Co., Inc. Outside Audit & Supervisory Board Member, Seiko Holdings Corporation</p>	<p>Apr. 1976 Sept. 1980 Jun. 1984 Sept. 1992 Sept. 2011 Jul. 2015 Mar. 2017</p> <p>Joined Arthur Andersen LLP Registered as Certified Public Accountant Resided in Dusseldorf Office of Arthur Andersen Representative employee, Inoue Saito Eiwa Audit Corporation Vice President (Audit Management), KPMG AZSA LLC; member, KPMG Global Audit Steering Group Executive Senior Partner, KPMG AZSA LLC Audit & Supervisory Board Member, Kao Corporation (current)</p>
 <p>Nobuhiro Oka Outside Audit & Supervisory Board Member Date of birth: Apr. 5, 1963 Number of Kao shares held: 1,100 shares Other material position(s) Attorney-at-Law, Doctorate (Law) (Chuo University) Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd. Outside Director, Yamatane Corporation Professor, Keio University Law School</p>	<p>Apr. 1993 Apr. 1997 Oct. 2004 Apr. 2012 Oct. 2013 Mar. 2014 Jan. 2016 Mar. 2018</p> <p>Registered as an attorney-at-law, joined Kajitani Law Offices Representative Partner, Takekawa & Oka Law Office Representative Partner, Takekawa, Oka & Yoshino Law Office Professor, Keio University Law School (current) Representative, Oka-Partners Law Office (current) Outside Audit & Supervisory Board Member, Kao Customer Marketing Co., Ltd. Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd. (current) Audit & Supervisory Board Member, Kao Corporation (current)</p>
 <p>Takahiro Nakazawa Outside Audit & Supervisory Board Member Date of birth: May 30, 1958 Number of Kao shares held: 0 shares Other material position(s) Certified Public Accountant</p>	<p>Oct. 1981 Jun. 1983 Mar. 1985 Jul. 2001 Sept. 2006 Jul. 2018 Mar. 2020</p> <p>Joined PriceWaterhouse Tokyo Joined Aoyama Audit Corporation Registered as Certified Public Accountant Representative Partner, Chuo-Aoyama Audit Corporation Representative Partner, Arata Audit Corporation (currently, PricewaterhouseCoopers Arata LLC) Director, Nakazawa Certified Public Accountant Office (current) Audit & Supervisory Board Member, Kao Corporation (current)</p>

Executive Officers

(As of April 1, 2021)



Yoshihiro Hasebe
President and Chief Executive Officer
Responsible for Human Capital Development



Yoshihiro Murakami
Managing Executive Officer
President, Consumer Products - Cosmetics Business, Global;
Senior Vice President, Consumer Products - DX Co-Creation, Global;
Representative Director, President, Kanebo Cosmetics Inc.;
Chairman of the Board, Molton Brown Limited



David J. Muenz
Executive Officer
Senior Vice President, ESG, Global



Hiroaki Yamaguchi
Executive Officer
Vice President, Supply Chain Management -
Manufacturing Plant Center, Global



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



Hideaki Kubo
Managing Executive Officer
Senior Vice President, Research and Development,
Global



Akio Matsui
Executive Officer
Responsible for Corporate Strategy - Integrated Strategy
Planning



Atsushi Koizumi
Executive Officer
Senior Vice President, Consumer Products -
Business Planning and Management, Global



Tomoharu Matsuda
Managing Executive Officer
President, Consumer Products, Global;
Responsible for Kao Professional Services Co., Ltd.



Toru Nishiguchi
Managing Executive Officer
President, Consumer Products, Asia; Responsible for Consumer
Products - Merries Business; Chairman of the Board and President,
Kao (China) Holding Co., Ltd.; Chairman of the Board and President,
Kao Corporation Shanghai; Chairman of the Board, Kao Commercial
(Shanghai) Co., Ltd.; Chairman of the Board, Kanebo Cosmetics (China)
Co., Ltd.; Chairman of the Board and President, Kao (Hefe) Co., Ltd.



Hideichi Nitta
Executive Officer
Vice President, Supply Chain Management -
Demand and Supply Planning Center, Global



Kotaro Nuriya
Executive Officer
President, Consumer Products - Health & Beauty Care
Business, Global



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



Satoru Tanaka
Executive Officer
President, Consumer Products, Americas and EMEA;
Chairman of the Board, Kao USA Inc.;
Chairman of the Board, Oribe Hair Care, LLC



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



Motomitsu Hasumi
Executive Officer
Vice President, Research and Development -
Household Products Research, Global;
Responsible for Research and Development -
Consumer Products Technology



Masakazu Negoro
Managing Executive Officer
Senior Vice President, Procurement, Global;
Responsible for Accounting and Finance



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



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



Mami Murata
Executive Officer
Vice President, Corporate Strategy - Strategic Public
Relations, Global



Yasushi Wada
Managing Executive Officer
Senior Vice President, Product Quality Management,
Global;
Responsible for Legal and Compliance



Ryoichi Harada
Executive Officer
Senior Vice President, Enterprise Information Solutions,
Global



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



Natsumi Hotta
Executive Officer
President, Consumer Products - Hygiene & Living Care
Business, Global



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



Hiroaki Taki
Executive Officer
Senior Vice President, Consumer Products -
Marketing Emergence, Global



Masaru Takeyasu
Executive Officer
Senior Vice President, Legal and Compliance, Global



Akira Shimotoyodome
Executive Officer
President, Consumer Products - Life Care Business,
Global