



Continuation and Partial Revision of Performance Share Plan for Members of the Board of Directors, etc.

February 3, 2021

Kao Corporation ("Company"– *Ticker Code:4452*) announces that its Board of Directors resolved at the meeting of the Board of Directors held on the date hereof to continue and partially revise the performance share plan for the members of the Board of Directors (excluding Outside Directors) and Executive Officers of the Company (hereinafter collectively referred to as "Directors, etc.") introduced since fiscal year 2017 ("Plan") and decided to submit a proposal regarding the partial revision of the Plan to the 115th Annual General Meeting of Shareholders to be held on March 26, 2021 ("AGM") as follows.

1. Continuation of the Plan

- (1) The Kao Group has formulated the "Kao Group Mid-term Plan 2025 (K25)," covering five fiscal years from 2021 to 2025, with three overarching objectives: (i) become an essential company in a sustainable world, (ii) transform to build robust business through investment, and (iii) maximize the power and potential of employees. By achieving these objectives, Kao Group aims to be an essential company in the future world by not only contributing to an "enriched sustainable world" but also growing the businesses of the Company itself through proactive engagement in ESG activities and investment. In order to realize such a vision pursued by the Company, the decision was made at the meeting of the Board of Directors held on the date hereof to partially revise and continue the Plan for Directors, etc. as described in 2. below, primarily for the purpose of further promoting the priority initiatives set forth in Mid-term Plan 2025 (K25) by Directors, etc., and evaluating the outcome of challenges such as medium/long-term initiatives and activities by Directors, etc., in a comprehensive and multifaceted manner and reflecting such evaluation in the compensation of Directors, etc.
 - (2) Continuation and partial revision of the Plan shall be subject to the approval of the relevant proposal at the AGM.
 - (3) The Plan adopts a structure called a Board Incentive Plan Trust ("BIP Trust"; the trust set up under the Plan shall hereinafter be referred to as the "Trust"). A BIP Trust is an executive incentive plan designed by using performance share plans and restricted stock plans in the U.S.A. as reference, wherein Company shares, etc., acquired through the Trust is vested, etc., to Directors, etc. depending on their respective executive positions and level of achievement of performance targets in the mid-term plan, etc.
- * The Company has established a Compensation Advisory Committee, which is chaired by an Independent Outside Director, and in which the majority of the members are Independent Outside Directors and Audit & Supervisory Board Members, to ensure the transparency and objectivity of the determination process regarding compensation for the members of the Board of Directors and Executive Officers. The continuation and partial revision of the Plan have been reviewed at the Compensation Advisory Committee.

2. Partial Revision of the Plan

(1) With respect to the Trust whose term expires on June 30, 2021, the Company will extend the Trust term and continue the Plan by modifying the Trust Agreement and entrusting additional money. The period covered by the Plan after its continuation shall be five fiscal years from the fiscal year ending December 31, 2021 to the fiscal year ending December 31, 2025 ("Covered Period").

* In cases where the Trust term has been extended by modifying the Trust Agreement and entrusting additional money at the expiry of the Trust term, the respective fiscal years corresponding to subsequent mid-term plans shall be the covered period of the Plan.

(2) Upon the continuation of the Plan, the existing Plan will be revised as follows, conditional upon approval at the AGM.

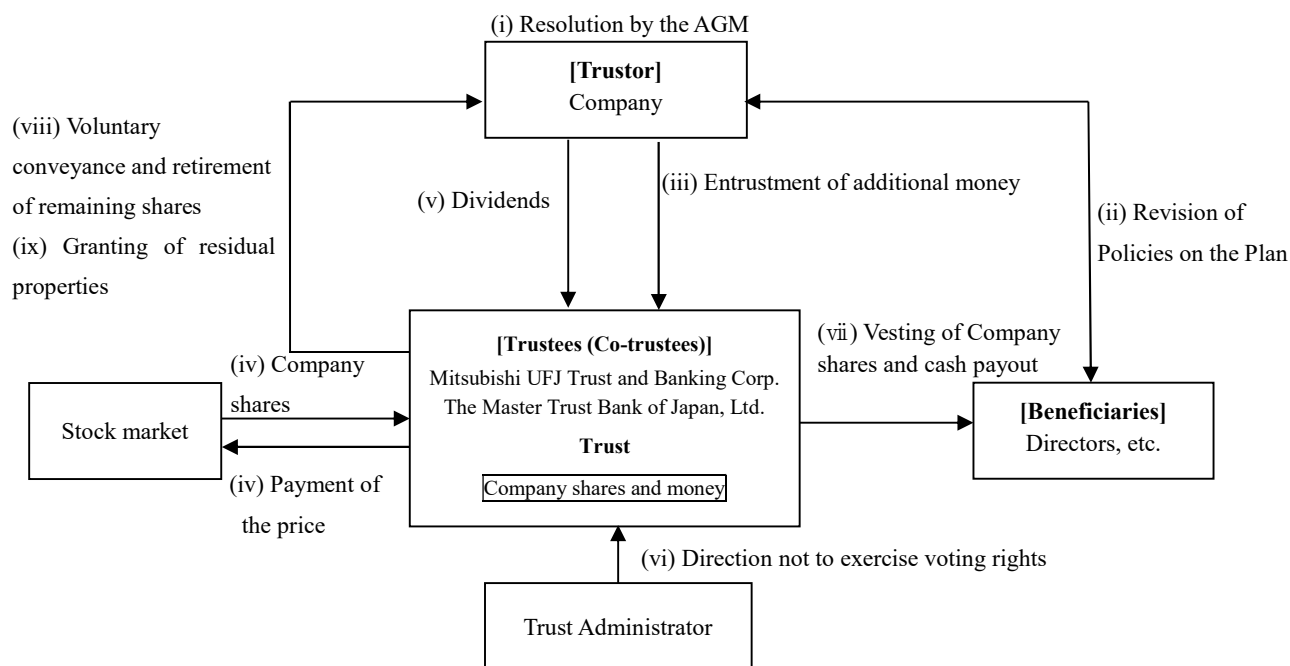
Outline of the Plan and Summary of Partial Revision

Item	Before Revision	After Revision
Persons eligible to be vested, etc., with Company shares, etc., subject to the Plan	<ul style="list-style-type: none"> Directors, etc. of the Company (members of the Board of Directors (excluding Outside Directors) and Executive Officers of the Company) 	<ul style="list-style-type: none"> Same as left
Upper limit of trust money to be contributed by the Company	<ul style="list-style-type: none"> Amount is capped at 1,850 million yen with respect to the four fiscal years corresponding to the covered period 	<ul style="list-style-type: none"> 730 million yen per fiscal year * 3,650 million yen with respect to the five fiscal years corresponding to the Covered Period
Maximum number of Company shares to be vested, etc. to Directors, etc.	<ul style="list-style-type: none"> Number of Company shares is capped at 340,000 shares with respect to the four fiscal years corresponding to the covered period 	<ul style="list-style-type: none"> Points granted to Directors, etc., per fiscal year are capped at 92,000 points (equivalent to 92,000 shares) * Points granted to Directors, etc., per fiscal year with respect to the five fiscal years corresponding to the Covered Period are capped at 460,000 points (equivalent to 460,000 shares)
Conditions of achievement	<ul style="list-style-type: none"> Varies between 0% and 200% depending on the level of achievement of performance targets in the mid-term plan, etc. Evaluation indicators are Compound Average Growth Rate (CAGR) of like-for-like net sales (annual average growth rate of net sales excluding the effect of exchange rate fluctuations, change of sales system, etc.) and consolidated operating margin, etc., with respect to the initial covered period. 	<ul style="list-style-type: none"> Varies between 0% and 200% depending on the outcome of initiatives/activities promoted in the mid-term plan, etc. Indicators for the evaluation of the outcome of initiatives/activities by Directors, etc. during the Covered Period, etc. consist of evaluation indicator of growth capability (e.g., extent of growth of sales/profit, etc. of business as a whole), evaluation indicator of ESG capability (e.g., evaluation based on external indicator) and evaluation indicator of management capability (e.g., Company employees' evaluation of management activities).

Item		Before Revision	After Revision
Timing at which Company shares, etc., are vested, etc.	Variable portion (accounting for 70%)	<ul style="list-style-type: none"> After the end of the covered period 	<ul style="list-style-type: none"> After resignation of the relevant Director, etc.
	Fixed portion (accounting for 30%)	<ul style="list-style-type: none"> After the end of each fiscal year during the covered period However, Directors, etc., shall continue to hold Company shares acquired as the fixed portion until the end of the covered period. 	<ul style="list-style-type: none"> Same as left

3. Content of the Plan after Revision, etc.

(1) Structure of the BIP Trust



- (i) The Company will gain approval of executive compensation by resolution at the AGM with respect to the partial revision of the Plan.
- (ii) The Company will revise the Policies on the Plan related to executive compensation at the meeting of the Board of Directors with respect to the partial revision of the Plan.
- (iii) The Company will entrust additional money to the extent approved by resolution at the AGM in (i) upon extending the Trust term.
- (iv) The Trust will acquire Company shares from the stock market using money entrusted in (iii) and money remaining in the existing Trust in accordance with the directions of the Trust administrator. The number of shares to be acquired by the Trust shall be no more than the extent approved by resolution at the AGM in (i).
- (v) Dividends for Company shares within the Trust will be paid in the same manner as for other Company shares.
- (vi) Voting rights shall not be exercised throughout the Trust term with regard to Company shares within the Trust.

- (vii) During the Trust term, pursuant to the Company's Policies on the Plan, Beneficiaries will receive a certain number of points that are granted according to their respective executive positions and outcome of initiatives/activities, etc. by Directors, etc., and be vested with Company shares equivalent to a certain ratio of points. Meanwhile, Company shares equivalent to the remaining number of points will be converted into cash within the Trust in accordance with the Trust Agreement and Beneficiaries will receive cash in the amount equivalent to the converted value of such Company shares. Also with respect to dividends that have been paid in relation to Company shares within the Trust, Beneficiaries will receive cash according to the number of points calculated by multiplying the cumulative total number of single fiscal-year points (prescribed in (2)e. (i) below) as at the dividend record date by the variation coefficient (prescribed in (2)e. (i) below).
- (viii) Residual shares that have arisen at the expiry of the Trust term due to under-achievement of targets during the covered period or for other reasons will be subject to vesting, etc., to Directors, etc., if the Trust continues to be used as the Plan or a similar performance share plan. If the Trust is terminated by expiry of the Trust term, the Trust will voluntarily convey the residual shares to the Company as a measure of shareholder returns, and the Company plans to retire said residual shares by the Board of Directors' resolution.
- (ix) Any residual dividends pertaining to Company shares within the Trust that have arisen at the expiry of the Trust term will be utilized as funds to acquire shares in the case of the continued use of the Trust, but in cases where the Trust is to be terminated by expiry of the Trust term, the Company plans to donate the portion exceeding the allowances for trust expenses to organizations that have no conflict of interest with the Company and Directors, etc.

* In the case where the number of shares within the Trust might fall short of the number of shares corresponding to the number of points prescribed for each Director, etc. (prescribed in (2)e. below) during the Trust term, or in the case where the money in the trust property might be insufficient for paying trust fees and trust expenses, the Company may entrust additional money to the Trust within the upper limit of trust money referred to in (2)g. below.

(2) Content of the Plan

a. Outline of the Plan

The Plan is a performance share plan covering a series of fiscal years subject to the mid-term plan set forth by Kao Group ("covered period"), by which Company shares, etc. are vested, etc. depending on an executive's position and the outcome of initiatives/activities promoted in the mid-term plan, etc.

The covered period after the continuation of the Plan shall be five fiscal years from the fiscal year ending December 31, 2021 to the fiscal year ending December 31, 2025 ("Covered Period").

Executive compensation under the Plan consists of the "variable portion," in which Company shares, etc. are vested, etc. depending on the outcome of initiatives/activities promoted in the mid-term plan, etc., and the "fixed portion," in which a certain number of Company shares, etc. are vested, etc. each year. The "variable portion" aims to motivate Directors, etc., to engage in challenges such as medium/long-term initiatives and activities to perpetually enhance corporate value. The "fixed portion" seeks to reinforce shared interests between shareholders and Directors, etc., through shareholding by the Directors, etc. The ratio of the variable portion to the fixed portion will be 70% to 30%.

In cases where the Trust is continued in accordance with d.(b) below, the respective fiscal years corresponding to subsequent mid-term plans shall be the covered period.

b. Resolution of the AGM with respect to Partial Revision of the Plan

The AGM shall resolve the upper limit of the amount of trust money to be contributed to the Trust, the maximum total number of Company shares, etc., to be vested, etc., to Directors, etc., and other requirements.

c. Persons who are Eligible for the Plan (Requirements for Beneficiaries)

Directors, etc., will be entitled to be vested, etc., with the number of Company shares, etc., equivalent to the points granted up until the Beneficiary admission procedures on completing the specified Beneficiary admission procedures, conditional upon satisfying the following requirements for Beneficiaries:

- (i) a person holds office as a Director, etc. (including persons who are newly elected as Directors, etc. during the covered period) or resigned from Director, etc. as at the last day of any fiscal year during the covered period;
- (ii) a person has neither resigned for personal reasons nor resigned or been dismissed for such reasons as having committed a certain illicit act or a serious violation of work/internal regulations, etc. while in office; and
- (iii) other requirements found necessary to accomplish the purpose of the performance share plan.

d. Trust Term

(a) Trust term after the revision of the Plan

The Trust term shall be approximately five years, from July 2021 (scheduled) to June 2026 (scheduled).

(b) Continuation of the Trust

The Trust may be continued again by modifying the Trust Agreement and entrusting additional money at the expiry of the Trust term after the revision of the Plan, in which case the Trust term shall be extended further with respect to the number of years corresponding to the mid-term plan at that time. The Company will make additional contributions within the upper limit of the amount of trust money for which approval by resolution of an Annual General Meeting of Shareholders has been obtained for each extended Trust term, and continue granting points to Directors, etc., during the extended Trust term.

However, in cases where such additional contributions are to be made, when there are any Company shares (excluding Company shares equivalent to points granted to Directors, etc. that are yet to be vested, etc.) and money remaining in the trust property ("Residual Shares, etc.") as at the last day of the Trust term prior to the extension, the sum of the amount of Residual Shares, etc. and additional trust money to be contributed shall be within the upper limit of the amount of trust money for which approval by resolution of an Annual General Meeting of Shareholders has been obtained.

Such extension of the Trust term may not be limited to once; subsequently, the Trust term may be extended again in the same manner.

(c) Treatment of termination of the Trust (extension of Trust term without involving entrustment of additional money)

In cases where modification of the Trust Agreement and entrustment of additional money are not

performed at the expiry of the Trust term, no points will be granted to Directors, etc. thereafter; provided, however, that in cases where a Director, etc. who might meet the requirements for Beneficiaries at that point in time holds office, the term of the Trust may be extended by up to ten years until his/her resignation and the completion of the vesting, etc. of Company shares, etc. to such Director, etc.

e. Calculation Method of Number of Company Shares to be Vested, etc. to Directors, etc.

A Director, etc., will be vested with Company shares, etc., after his/her resignation with respect to the variable portion and after the end of each fiscal year during the covered period with respect to the fixed portion, as shown in f. below.

Points prescribed in (i) and (ii) below will be granted to Directors, etc., as a precondition for the vesting, etc. of Company shares, etc.

One point shall be equivalent to one Company share, and fractions less than one point will be disregarded; however, in cases where share split, consolidation of shares, etc., has been conducted during the Trust term with respect to Company shares, the number of Company shares per point will be adjusted according to the share split ratio, share consolidation ratio, etc.

(i) Variable portion

To Directors, etc. who hold office on the last day of a fiscal year during the covered period (including Directors, etc. who resigned due to expiry of term of office or for other reasons on said day and Directors, etc. who died on said day), single fiscal-year points calculated by the following formula based on points that have been determined in advance with respect to each executive position ("Executive Position Points") will be granted on the last day of such fiscal year. After the end of the covered period, the number of variable points is calculated by adding up the single fiscal-year points granted to Directors, etc., and then multiplying such cumulative total by the variation coefficient depending on the outcome of initiatives/activities promoted in the mid-term plan, etc.

(Calculation formula of single fiscal-year points) Executive Position Points x 70%

(Calculation formula of number of variable points) Cumulative total of single fiscal-year points during the covered period x Variation coefficient^{*1*2*3}

*1 The variation coefficient varies between 0% and 200% depending on the outcome of initiatives/activities promoted in the mid-term plan, etc. Of note, in the initial covered period after this revision, the evaluation indicators of the outcome of initiatives/activities, etc. by Directors, etc., consist of evaluation indicator of growth capability (e.g., extent of growth of sales/profit, etc. of business as a whole), evaluation indicator of ESG capability (e.g., evaluation based on external indicator) and evaluation indicator of management capability (e.g., Company employees' evaluation of management activities).

*2 In cases where a Director, etc. resigns before the end of the covered period, the number of variable points will be calculated by adding together the single fiscal-year points granted up to that point in time and determining the variation coefficient based on the evaluation of his/her status of progress in terms of each evaluation indicator at such point in time.

*3 In cases where a Director, etc. dies before the end of the covered period, the number of variable points will be calculated by adding together the single fiscal-year points granted up to that point in time and assuming that the variation coefficient is 100%.

(ii) Fixed portion

To Directors, etc. who hold office on the last day of a fiscal year during the covered period (including Directors, etc. who resigned due to expiry of term of office or for other reasons on said day and Directors, etc. who died on said day), fixed points calculated by the following formula based on the Executive Position Points will be granted on said day.

(Calculation formula of number of fixed points) Executive Position Points x 30%

f. Method and Timing of Vesting, etc. of Shares, etc. to Directors, etc.

(i) Variable portion

The timing at which a Director, etc., will be vested, etc. with Company shares, etc. pertaining to the variable portion will be after his/her resignation. The specific method and timing of vesting, etc. are as follows:

A Director, etc. who meets the requirements for Beneficiaries shall, at a certain time after his/her resignation, be vested with Company shares corresponding to a certain ratio of the number of variable points (fractional shares will be rounded up), and after the conversion of Company shares corresponding to the number of remaining variable points into cash within the Trust, receive payment of cash in the amount equivalent to the converted value of such Company shares.

However, in cases where such Directors, etc., do not have a securities brokerage account that handles Japanese shares, Company shares corresponding to the number of variable points shall be converted into cash within the Trust, and such Directors, etc., shall receive payment of cash in the amount equivalent to the converted value of such Company shares.

(ii) Fixed portion

The timing at which Company shares, etc. pertaining to the fixed portion are vested, etc., will be after the end of each fiscal year during the covered period. The specific method and timing of vesting, etc. are as follows:

Directors, etc. who meet the requirements for Beneficiaries shall, at around May immediately after the end of each fiscal year during the covered period, be vested with Company shares corresponding to a certain ratio of the number of fixed points (fractional shares will be rounded up), and after the conversion of Company shares corresponding to the number of remaining fixed points into cash within the Trust, receive payment of cash in the amount equivalent to the converted value of such Company shares.

However, in cases where such Directors, etc., do not have a securities brokerage account that handles Japanese shares, Company shares corresponding to the number of fixed points shall be converted into cash within the Trust, and such Directors, etc., shall receive payment of cash in the amount equivalent to the converted value of such Company shares.

Of note, Directors, etc., shall continue to hold Company shares acquired as the fixed portion until the end of the covered period.

In the event of the death of a Director, etc. who meets the requirements for Beneficiaries during the Trust term, Company shares that correspond to the cumulative total of the number of variable points calculated at the time of his/her death and the number of fixed points subject to the Beneficiary admission procedures that commence after his/her death shall be converted into cash within the Trust and the heir of said Director, etc. shall receive payment of cash in the amount equivalent to the converted value of such Company shares from the Trust.

g. Upper Limit of Amount of Trust Money to be Contributed to the Trust and the Maximum Total Number of Points to be Granted

The amount of trust money to be contributed to the Trust by the Company shall be capped at 730 million yen per fiscal year and at 3,650 million yen with respect to the five-fiscal-year Covered Period.*1 Of note, the upper limit of the amount of trust money in the case of the continuation of the Trust pursuant to d. (b) above will be the amount calculated by multiplying the upper limit of the amount of trust money per fiscal year by the number of years in the covered period.

*1 The upper limit of the amount of trust money is calculated by taking into consideration the current compensation level of Directors, etc. and adding trust fees and trust expenses to the amount of funds to acquire shares.

The total number of points to be granted to Directors, etc. shall be capped at 92,000 points per fiscal year*2, and the number of Company shares to be acquired by the Trust in the five-fiscal-year Covered Period ("Number of Shares to be Acquired") shall be capped at the number of shares equivalent to the number multiplied by five, i.e., the number of years in the covered period (460,000 shares). Of note, the maximum Number of Shares to be Acquired in the case of the continuation of the Trust pursuant to d. (b) above will be the number of shares*3 equivalent to the number calculated by multiplying the maximum total number of points per fiscal year by the number of years in the covered period.

*2 The maximum total number of points to be granted to Directors, etc., is set by using the share price at the present time and other such factors as reference, in consideration of the aforementioned upper limit of the amount of trust money.

*3 In cases where the adjustment referred to in e. has been made, the maximum Number of Shares to be Acquired will also be adjusted according to such adjustment.

h. Method for the Trust to Acquire Company Shares

The Trust plans to acquire Company shares from the stock market within the upper limit of the amount of trust money and within the maximum Number of Shares to be Acquired as specified in g. above, without giving rise to any stock dilution.

i. Treatment of Dividends of Surplus Concerning Company Shares within the Trust

Considering that a Director, etc. will be vested, etc., with Company shares, etc. pertaining to the variable portion only after his/her resignation, in order to motivate Directors, etc. to engage in medium/long-term initiatives and activities to perpetually enhance corporate value, dividends paid with respect to Company shares within the Trust will, after being received by the Trust, not only be allocated to pay for trust fees and trust expenses of the Trust, but also be reserved in the amount equivalent to the per-share dividend amount per point according to the number of points calculated by multiplying the cumulative total of single fiscal-year points of Directors, etc. as at the dividend record date by the variation coefficient, and paid to Directors, etc. together with Company shares, etc. that are vested, etc. according to f. above.

j. Exercise of Voting Rights Related to Company Shares within the Trust

Voting rights related to Company shares within the Trust (Company shares before being vested, etc. to Directors, etc.) shall not be exercised during the Trust term to ensure the neutrality of the Company's management.

k. Treatment upon Termination of the Trust

Residual shares that have arisen at the expiry of the Trust term due to under-achievement of targets during the covered period or for other reasons will be subject to vesting, etc. to Directors, etc., if the Trust continues to be used as the Plan or a similar performance share plan. If the Trust is terminated by expiry of the Trust term, the Trust will voluntarily convey the residual shares to the Company as a measure of shareholder returns, and the Company plans to retire said residual shares by the Board of Directors' resolution.

Any residual dividends pertaining to Company shares within the Trust that have arisen at the expiry of the Trust term will be utilized as funds to acquire shares in the case of the continued use of the Trust, but in cases where the Trust is to be terminated by expiry of the Trust term, the Company plans to donate the portion exceeding the allowances for trust expenses to organizations that have no conflict of interest with the Company and Directors, etc.

(Reference)

[Content of Trust Agreement]

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|---|---|
| (i) Type of Trust: | Monetary trust other than a specified solely-administered monetary trust (Third-party benefit trust) |
| (ii) Purpose of Trust: | To improve the Company's mid-and long-term performance as well as increase the awareness of contributions to increasing corporate value |
| (iii) Trustor: | The Company |
| (iv) Trustee: | Mitsubishi UFJ Trust and Banking Corporation
(Co-trustee: The Master Trust Bank of Japan, Ltd.) |
| (v) Beneficiaries: | Person(s) who meets requirements for Beneficiaries among Directors, etc. |
| (vi) Trust administrator: | A third party who has no conflict of interest with the Company (Certified public accountant) |
| (vii) Date of Trust Agreement: | May 26, 2017 (scheduled to conclude modified Agreement in May 2021) |
| (viii) Trust term: | May 26, 2017 to June 30, 2021 (scheduled to be extended to June 30, 2026 under a modified Agreement in May 2021) |
| (ix) Start of the Plan: | May 25, 2017 |
| (x) Exercise of voting rights: | No voting rights will be exercised. |
| (xi) Type of shares to be acquired: | Ordinary shares of the Company |
| (xii) Upper limit of amount of trust money: | 3,650 million yen (scheduled) (including trust fees and trust expenses) |
| (xiii) Timing of share acquisition: | From May 11, 2021 (scheduled) to May 31, 2021 (scheduled) |
| (xiv) Method of share acquisition: | To be acquired from the stock market |
| (xv) Rights holder: | The Company |
| (xvi) Residual properties: | The Company, as the rights holder, may receive residual properties within the scope of allowances for trust expenses, which are calculated by deducting funds to acquire shares from trust money. |