

Kao is able to respond promptly to change, and implements efficient management that is sound, fair and highly transparent; in order to realize ongoing enhancement of corporate value, Kao has set up and operates an appropriate management structure and internal control system, implements necessary measures in a timely manner and demonstrates accountability.

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. |

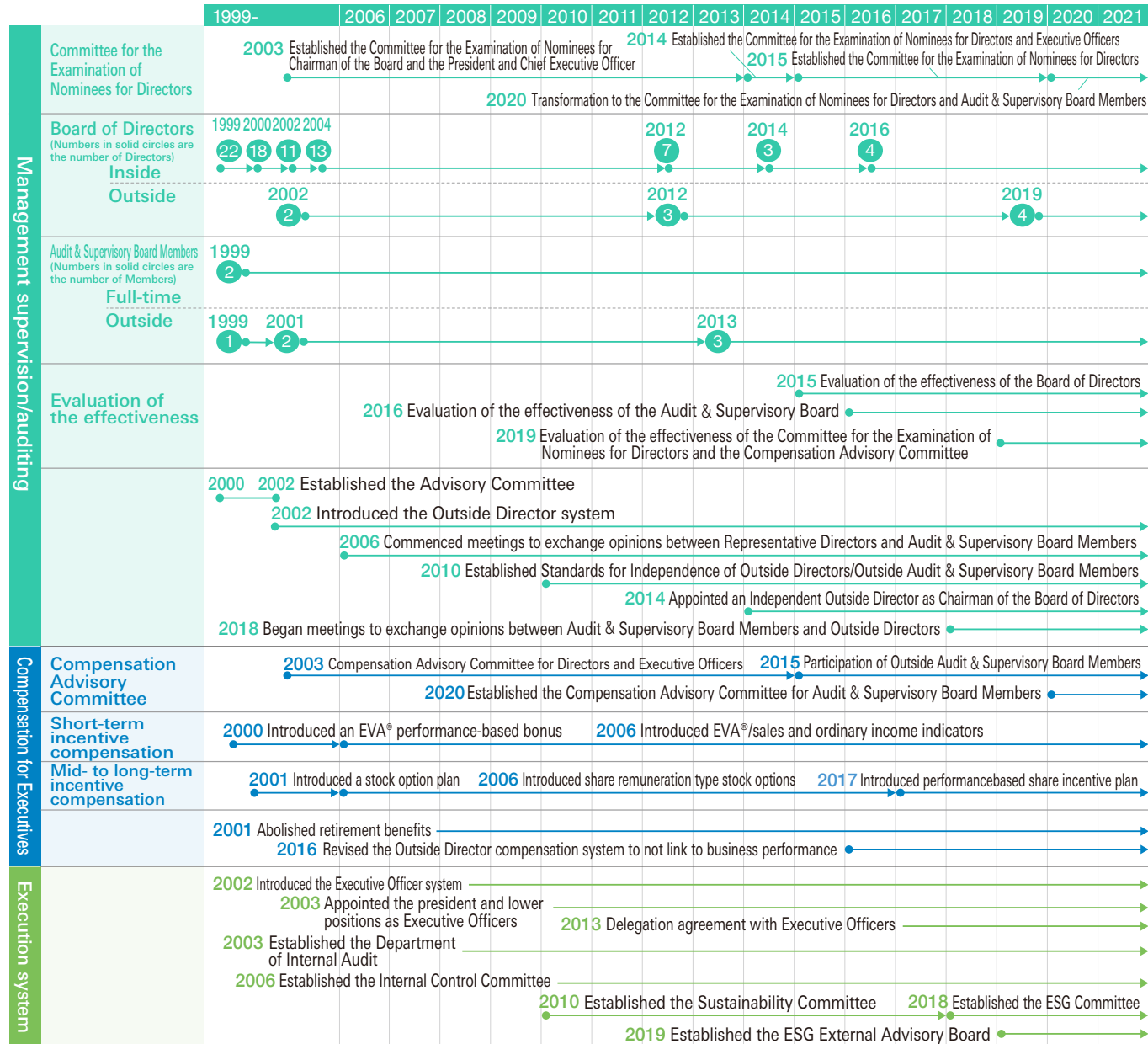


→ Report Concerning Corporate Governance

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance_001.pdf

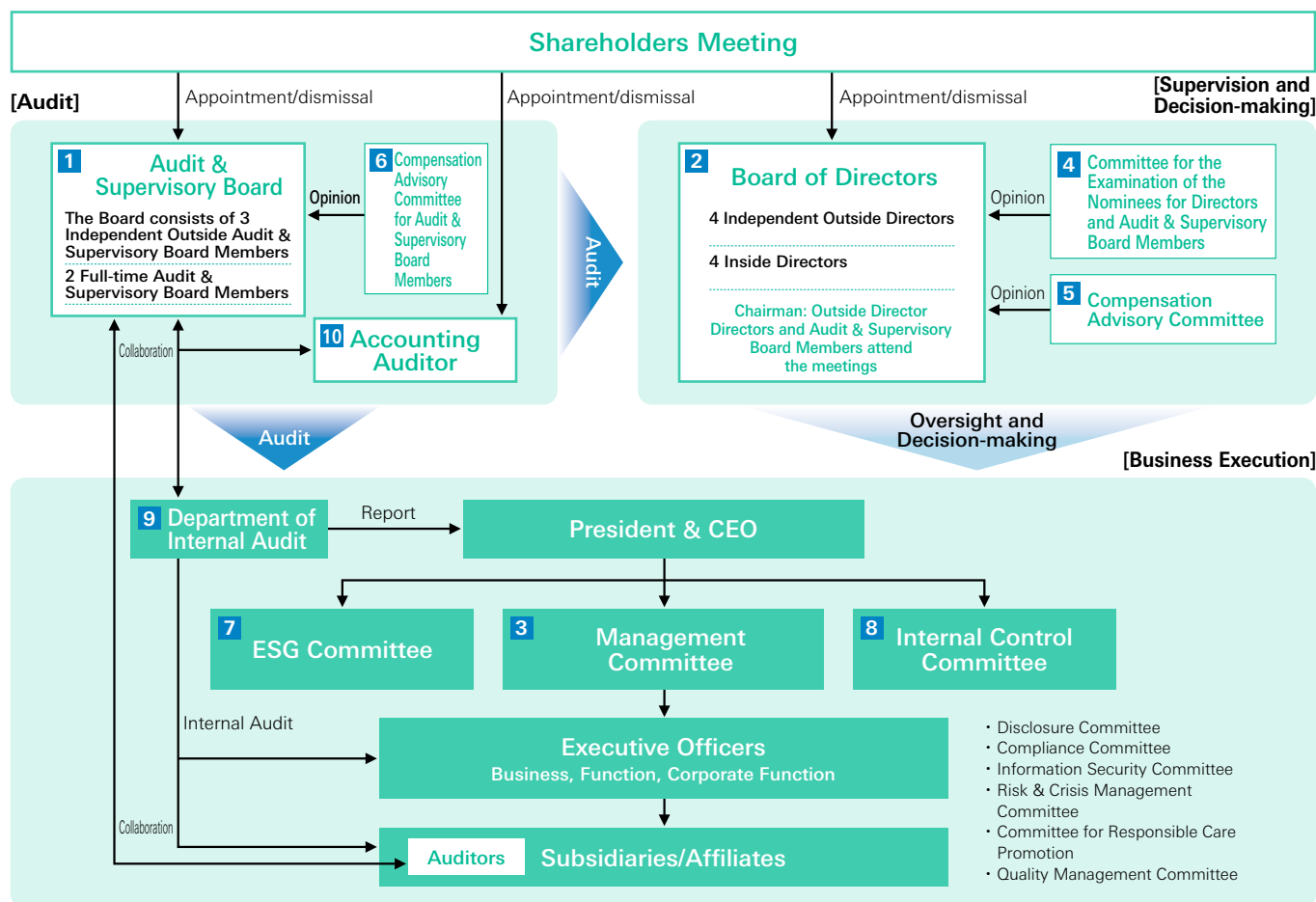
Corporate governance

The path toward strengthened 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

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.

Corporate governance 102-18, 102-22, 102-25, 102-26

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 | — |
| Audit & Supervisory Board Members | Nobuhide Hayashi | 2 years | ○ | | ○ | ○ | 14/14 | — | |
| | 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). |

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 the 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.

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.

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

| Fixed compensation (50%) | | Variable compensation (50%) | |
|--------------------------|--|-------------------------------|------------------------------|
| 1. Base salary | | 2. Short-term incentive (25%) | 3. Long-term incentive (25%) |

* 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

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



→ 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

ESG External Advisory Board Members

| Members | | |
|--|-----------------------|--|
|  | Lisa MacCallum | Founder, Inspired Companies. Specialization: Business reforms |
|  | Rika Sueyoshi | CEO, Ethical Association. Specialization: Ethical consumption |
|  | Jalal Ramelan | Chairman, ESG Indonesia. Specialization: Sustainable development field |
|  | 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 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.