

Basic approach to corporate governance

Our vision by 2030 is to make Kao a company with a global presence. In addition to financial strategies and initiatives including financial results, non-financial strategies and initiatives should be strengthened. It is important that the fruits from those strategies and initiatives are used as investments for sustainable growth. Kao (hereinafter, referred "the Company") has announced that it recognizes ESG initiatives as an investment for the future, not as a cost, and is promoting them. The Company considers good corporate governance as a prerequisite and a driving force for strongly promoting the achievement of such a goal. 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, timely implement necessary measures and achieve accountability so that the Company can swiftly respond to changes, realize efficient management that is sound, fair and highly transparent, and continuously enhance corporate value. The Company views accomplishing such tasks as one of its most important management issues. 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.

Corporate governance reform

Also as for corporate governance, since the early stage Kao has practiced Continuous Innovation, which is one of Values of the Kao Way. To respond to changes in the business environment as well as social demands, the Company has pursued the creation of the most optimal structure. The Company will continue to work on governance reform.

	Governance structure and system	Compensation for executives
1999	<ul style="list-style-type: none"> Introduced EVA® as a management indicator 	<ul style="list-style-type: none"> Short-term incentives: Introduced an EVA® performancebased bonus
2000	<ul style="list-style-type: none"> Established the Advisory Committee (an advisory body for the Board including two outside members) 	
2001	<ul style="list-style-type: none"> Increased the number of Outside Audit & Supervisory Board Members from one to two 	<ul style="list-style-type: none"> Mid- to long-term incentives: Introduced a stock option plan Abolished retirement benefits
2002	<ul style="list-style-type: none"> Introduced Outside Director system (the Advisory Committee was dissolved) Introduced the Executive Officer system 	
2003	<ul style="list-style-type: none"> Established the Committee for the Examination of Nominees for Chairman of the Board and the President and Chief Executive Officer Appointed the president and lower positions as Executive Officers Established the Department of Internal Audit 	<ul style="list-style-type: none"> Established the Compensation Advisory Committee
2006	<ul style="list-style-type: none"> Commenced meetings to exchange opinions between Representative Directors and Audit & Supervisory Board Members Established the Internal Control Committee 	<ul style="list-style-type: none"> Mid- to long-term incentives: Introduced share remuneration type stock options Short-term incentives: Introduced EVA®/sales and ordinary income indicator
2010	<ul style="list-style-type: none"> Established Standards for Independent of Outside Directors /Outside Audit & Supervisory Board Members Established the Sustainability Committee 	
2012	<ul style="list-style-type: none"> Increased the number of Outside Directors from two to three Reduced the number of Directors from 15 to 10 Shortened Directors' term of office to one year 	
2013	<ul style="list-style-type: none"> Increased the number of Outside Audit & Supervisory Board Members from two to three Delegation agreement with Executive Officers 	
2014	<ul style="list-style-type: none"> Established the Committee for the Examination of Nominees for Directors and Executive Officers (Abolished the Committee for the Examination of Nominees for Chairman of the Board and the President and Chief Executive Officer) Reduced the number of Inside Directors to 3, equal to the number of Outside Directors Appointed an Outside Director as the Chairman of the Board 	
2015	<ul style="list-style-type: none"> Established the Committee for Examination of Nominees for Directors (Abolished the Committee for the Examination of Nominees for the Directors and Executive Officers) Commenced evaluation of the effectiveness of the Board of Directors 	
2016	<ul style="list-style-type: none"> Commenced evaluation of the effectiveness of the Audit & Supervisory Board Increased the number of Inside Directors from three to four 	<ul style="list-style-type: none"> Revised Outside Director compensation system to not linked to business performance
2017		<ul style="list-style-type: none"> Mid- to long-term incentives: Performance-based share incentive plan (non-financial indicators included)
2018	<ul style="list-style-type: none"> Commenced regular meetings to exchange opinions between Audit & Supervisory Board Members and Outside Directors Established the ESG committee (the Sustainability Committee was dissolved) 	
2019	<ul style="list-style-type: none"> Commenced evaluation of the effectiveness of the Committee for the Examination of Nominees for Directors Commenced evaluation of the effectiveness of the Compensation Advisory Committee Established the External ESG Advisory Board Increased the number of Outside Directors from three to four 	<ul style="list-style-type: none"> Revised the remuneration limit for Audit & Supervisory Board Members

Corporate governance structure

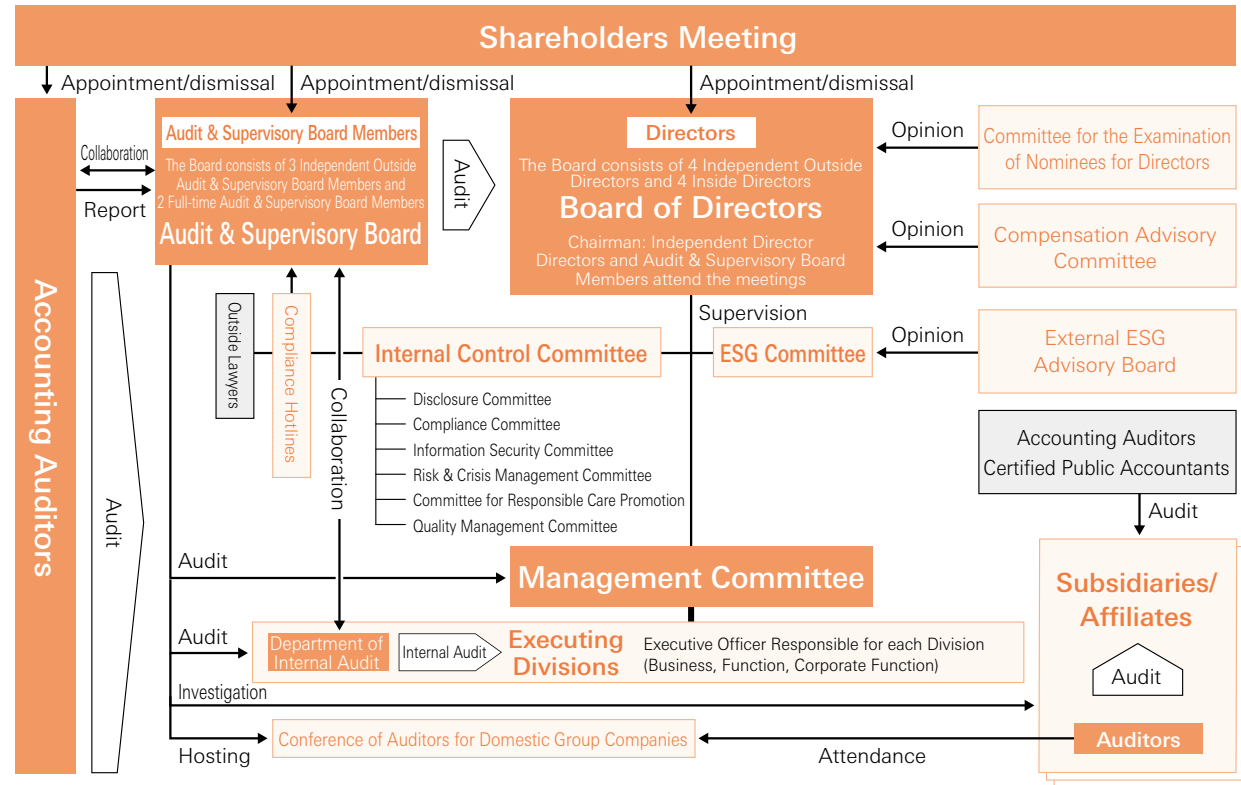
Kao has chosen to be a company with an Audit & Supervisory Board. In company with the Audit and Supervisory Board, the Audit and Supervisory Board Members are obligated to participate in meetings of the Board of Directors, but they do not possess voting rights. Therefore, the Company believes that this allows them to objectively audit the decisions made by the Board of Directors and business execution of individual Directors without being bound by past decisions or adopting a conservative approach.

To better ensure transparency and fairness in the processes for determining Director appointment and compensation, the Company has voluntarily established the Committee for the Examination of Nominees for Directors, composed solely of Outside Directors and Outside Audit & Supervisory Board Members and the Compensation Advisory Committee, made up of Outside Directors, Outside Audit & Supervisory Board Members and Representative Directors.

The Board of Directors maintains a high level of objectivity, with four of its eight members being Outside Directors. At the same time, the Board of Directors is supported by organizations that oversee auditing duties as well as compensation and nomination examinations, thereby realizing a high level of effectiveness. In these ways, the Company has put into place a framework for supervising and auditing its management.

Also, the Company has introduced an Executive Officer system that appoints Executive Officer as chief executive of each division, thereby promoting the separation of supervisory functions and execution functions. In addition, through largely delegating execution authority to the Management Committee, the Company works to speed up the decision-making and execution process.

Corporate governance structure



ESG Committee

To gain the support and trust of all its stakeholders, as a company with a global presence, this committee discusses and determines the direction of Kao's activities pertaining to ESG, aiming to contribute to sustainable development of Kao Group and society.

Internal Control Committee

This committee discusses and determines the direction of the entire Group's internal control systems to ensure the accuracy of financial reporting and achieve cross-organizational integration of functions pertaining to internal control including information disclosure, compliance, information security, risk and crisis management, promotion of responsible care, and quality management with the objective of improving the quality of business operations.

Management Committee

This committee, which is mainly composed of members with the position of Managing Executive Officer or higher who have experience in business execution as persons responsible for core businesses and functions, makes decisions concerning the execution of mid- to long-term direction and strategies that the Board of Directors deliberates on and determines. Delegating wide-ranging authority to the Management Committee, Kao works to speed up its decision-making and execution process.

Directors and Board of Directors

Kao's Board of Directors has secured a balance among knowledge, experience, and skills and a sufficient level of diversity to appropriately carry out the formulation of business strategies and other measures as well as supervise specific business execution. Outside Directors are nominated with emphasis on diverse experience, their knowledge, and a high level of insight obtained from such experience that cannot be obtained from Inside Directors alone. Examples include global experience, experience in managing a company that provides products and services in a different industry from that of Kao, consulting or academic experience, as well as expertise and a high level of insight. In addition, the Company makes efforts to enhance the effectiveness of discussions at Board of Directors' meetings in such ways as having Executive Officers in charge of accounting and human affairs who are not Directors attend these meetings.

At these Board of Director meetings, to promote sustainable growth and mid- to long-term increases in corporate value, the Company deliberates from various perspectives, including evaluation of risks and determine the mid- to long-term direction of management toward business strategies. Furthermore, the Company supervise and audit whether or not its business strategies are being executed appropriately in various ways through reports by the Inside Directors on the status of progress of these strategies and issues preventing their achievement and response to such issues, as well as through evaluation and audits by Outside

Directors and Outside Audit & Supervisory Board Members from their diverse perspectives. Moreover, the Company draws sharp distinctions between risks through the establishment of internal control and risk control systems. In these ways, the Company has created an environment that allows for a more proactive style of management.

Major topics discussed by the Board of Directors in 2018

First Quarter	<ul style="list-style-type: none"> • Evaluation of effectiveness of the Board of Directors • Revision of Information Disclosure Guidelines • Department of Internal Audit's audit reports • Audit and Supervisory Board Members' audit report summaries
Second Quarter	<ul style="list-style-type: none"> • Reviewing Mid-term Plan progress • Compliance Committee reports • Cosmetics Business strategies • M&A strategies • ESG strategies • Current status of Research & Development and topics
Third Quarter	<ul style="list-style-type: none"> • Department of Internal Audit's audit reports • New Business Project progress reports • Employee satisfaction survey results
Fourth Quarter	<ul style="list-style-type: none"> • Baby diaper business strategies • Internal Control Committee reports • Cross- shareholdings status

In addition to the above, each month Kao has business execution reports from Directors currently serving as Executive Officers, as well as on matters discussed during the Management Committee from Executive Officers in charge.

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. Based on the idea that the roles and responsibilities of the Board of Directors must be shared by the entire Board of Directors, all members who participates in meetings of the Board of Directors, including Audit & Supervisory Board Members, to express opinions, discuss and conduct evaluation. Also in FY2018 evaluation, the Company conducted a survey in advance, and the Board of Directors discussed and exchanged their opinions regarding the shared results.

Evaluation of efforts to address issues pointed out in FY2017

Human resource strategies

Although a certain level of discussions were held, further discussion is necessary for utilizing global human resources, which is the premise of promoting business globalization, as well as for finding and fostering diverse human resources to respond to diversification of values with recent technological innovations, and to changes in purchasing behaviors and distribution structures.

Business strategies including non-financial activities (ESG activities)

Top management itself takes initiative, showing an attitude for leading the way in change. Sufficient discussions have been held, and properly implemented, including newly establishment of ESG Division.

Maintenance and oversight of Kao's internal control system to comply with laws and regulations

There was some improvement in the speed of reporting important matters to the Board of Directors. By delivering information early on, the Company can minimize serious matters and enable discussion of the response by the Kao Group as a whole. Kao needs to continue to enhance both a system maintenance and operation.

Future issues for the Board of Directors

- Scouting and developing diverse human resources is an ongoing issue. Based on Kao's Vision 10 years from now, further discussion is needed regarding target human resources, who can realize the Vision, and how to find and foster such human resources.
- Interactive communication between the Board of Directors and execution side should stimulate the Board of Directors, and apply discussion at the Board of Director to business execution.
- Regarding internal control to comply with laws and regulations, supervision must be carried out to constantly review not only its system maintenance, but its operation that enables the system to function effectively.

Besides the above, the Company evaluates viewpoints that are emphasized in the corporate governance code, such as constructive discussion on the company's overall direction, and the structure and management status of the Board of Directors. Furthermore, in FY2018, the effectiveness of the Committee for the Examination of Nominees for Directors and the Compensation Advisory Committee was evaluated.

Audit & Supervisory Board Members and Audit & Supervisory Board

For Outside Audit & Supervisory Board Members, Kao has appointed certified public accountants and a lawyer to its Audit & Supervisory Board, all of whom have a high level of professionalism and insight in accounting, finance and law necessary for auditing, abundant experience which can take advantage of them, and high ethical standards as a professional. Supported by internal information gathering by the well-informed full-time Auditor & Supervisory Board Members, Audit & Supervisory Board Members are able to engage in objective and meaningful discussion and perform highly effective audits.

Audit & Supervisory Board Members hold regular meetings with the Representative Directors to exchange opinions and attend important meetings, such as meetings of the Board of Directors and the Management Committee. In addition to meetings with the auditors of domestic group companies, the Audit & Supervisory Board Members hold meetings with internal auditing divisions and the Accounting Auditor to exchange information as well as conduct interviews with each internal division and Kao's subsidiaries on a regular basis and additionally when necessary. Furthermore, at meetings of the Board of Directors, the Audit & Supervisory Board Members provide observations related to the legality and validity of the Company's business and accounting practices. The Audit & Supervisory Board also offers a wide range of advice to Kao's management, including advice on strategic management direction.

Evaluation of the effectiveness of the Audit & Supervisory Board

Once a year, all the Audit & Supervisory Board Members express their views, discuss, and conduct evaluations while referring to a list of focal points prepared in advance at the Audit & Supervisory Board. The results are incorporated into next fiscal year's audit plan, and its summary is reported and shared at the Board of Directors.

Evaluation of current status

- The Audit & Supervisory Board has been effectively managed. Through Full-time Audit & Supervisory Board Members and staff correspondence, Outside Audit & Supervisory Board Members were able to work effectively.
- Began meetings to exchange opinions between Outside Directors. The Audit & Supervisory Board will continue to share its awareness of issues and further strengthen its management supervisory functions.
- Held exchange information meetings with full-time auditors of major domestic subsidiaries. Mutually shared concerns, which led to the development of a relationship in which information can be conveyed to the headquarters.
- Established effective communication channels with the accounting auditors and the Department of Internal Audit, and strengthened the tripartite auditing framework.

Future Issues for the Audit & Supervisory Board

- By enhancing the opportunities for interactive communication between the Audit & Supervisory Board Members of the head office and subsidiaries through the Conference of Auditors for Domestic Group Companies and other measures.

Committee for the Examination of Nominees for Directors and Compensation Advisory Committee

To ensure fairness and transparency in decisions regarding the appointment and compensation of Kao's Directors and Executive Officers, Kao has voluntarily established the Committee for the Examination of Nominees for Directors and the Compensation Advisory Committee.

The Committee for the Examination of Nominees for Directors comprises all Outside Directors and Outside Audit & Supervisory Board Members. The committee submits its opinions regarding nominees for company President and Directors to the Board of Directors. In addition to examining the appropriateness of Director nominees, it discusses size, composition and diversity of the Board of Directors as well as the qualities required for the President and Chief Executive Officer and members of the Board. The committee also reports the results of these examinations and deliberations to the Board of Directors.

The Compensation Advisory Committee is composed of all Outside Directors, all Outside Audit & Supervisory Board Members and all Representative Directors. The committee offers its opinions to the Board of Directors on compensation systems and levels of Directors and Executive Officers. Furthermore, in FY2018, the effectiveness of both committees was evaluated at the Board of Directors.

Attending members for meetings of the Board of Directors, the Audit & Supervisory Board and other committees

Classification	Name	Meeting of the Board of Directors	Audit & Supervisory Board Meeting	Committee for the Examination of Nominees for Directors	Compensation Advisory Committee
Members of the Board	Michitaka Sawada	○			○
	Toshiaki Takeuchi	○			○
	Yoshihiro Hasebe	○			○
	Tomoharu Matsuda	○			
	Sonosuke Kadonaga Outside/Independent	◎		◎	◎
	Osamu Shinobe Outside/Independent	○		○	○
	Chiaki Mukai Outside/Independent	○		○	○
	Nobuhide Hayashi Outside/Independent	○		○	○
Audit & Supervisory Board Members	Katsuya Fujii	○	◎		
	Hideko Aoki	○	○		
	Toraki Inoue Outside/Independent	○	○	○	○
	Hideki Amano Outside/Independent	○	○	○	○
	Nobuhiro Oka Outside/Independent	○	○	○	○

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

Independence of Outside Directors and Outside Audit & Supervisory Board Members

Kao uses a structure with the appropriate number of independent Outside Directors and independent Outside Audit & Supervisory Board Members who satisfy the "Standards for Independence of Outside Directors/Outside Audit & Supervisory Board Members of Kao Corporation" (hereinafter, the "Standards for Independence") to provide a check on the status of deliberations of the Board of Directors from an objective perspective independent of Kao's management so that its judgment is not biased toward the logic of persons inside the company. Four of the Company's eight Directors and three of its five Audit & Supervisory Board Members and fulfill the Standards for Independence. Under its current structure, The Board of Directors has appointed an independent Outside Director as Chairman of the Board of Directors to further enhance the Board's neutrality and independence. To promote

discussions from diverse perspectives, independent Outside Directors and independent Outside Audit & Supervisory Board Members hold meetings on their own initiative at intermissions of meetings of the Board of Directors or by setting up separate opportunities to exchange information and share awareness of issues related to the Company's management and the activities of the Board of Directors, the development of future management, and other matters.



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

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

The compensation system for the Directors, Audit & Supervisory Board Members and Executive Officers is aimed at (1) securing and retaining diverse and excellent personnel to establish and improve competitive advantages; (2) promoting prioritized measures for lasting increases in corporate value; and (3) sharing interests in common with shareholders. Starting in FY2017, Kao has introduced a performance-based share incentive plan for its 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 improvement in the company's financial performance and corporate value over the mid- to long-term.

(i) Base salary

A base salary is paid as fixed monthly remuneration in an amount determined in accordance with duties as a Director or Executive Officer and rank.

(ii) Bonus as short-term incentive compensation

When the full bonus payment rate is paid, the bonus is set at 50% of the base salary for the President and Chief Executive Officer, 40% of the base salary for Executive Officers with titles other than the Chief Executive Officer and 30% of the base salary for other Executive Officers. The bonus payment rate is set within a range of 0% to 200%, depending on the degree of achievement of targets for net sales and income (gross profit less selling, general and administrative expenses), the degree of their improvement from the previous year, and the degree of achievement of the target for Economic Value Added (EVA®), the Company's main management indicator, which takes into account capital cost.

(iii) Performance-based share incentive plan as long-term incentive compensation

Within a four-year target period from FY2017 to FY2020, the period covered by the current mid-term plan, Kao shares, etc., are delivered to Directors, other than Outside Directors and Executive Officers in accordance with the degree of mid-term plan target achievements and non-financial target achievements from an ESG perspective. This incentive plan has two parts: a performance-based part in which Kao shares, etc., are delivered in accordance with the degree of mid-term plan target achievement, and a fixed part in which a certain number of Kao shares, etc., are delivered annually. The performance-based part of the system provides an impetus for achieving the targets of our mid-term plan and increases the link between performance and compensation over the med- to long term. The fixed part of the system strengthens shared interest with Kao's shareholders by promoting the holding of shares by Directors (excluding Outside Directors) and Executive Officers. The performance-based part accounts for 70% of shares delivered, with the fixed part accounting for 30%. When the performance-based coefficient for the performance-based part of the system is at 100%, the yearly share remuneration amount is set at nearly 40% to 50% of the base salary.

The compensation system and compensation standards for Directors and Executive Officers are examined by the Compensation Advisory Committee and determined by the Board of Directors. Compensation for independent Outside Directors consists solely of a fixed monthly salary. Compensation of Audit & Supervisory Board Members also consists solely of a fixed monthly salary, and compensation standards are determined at meetings of the Audit & Supervisory Board. Compensation standards

for Directors, Executive Officers, and Audit & Supervisory Board Members are determined each year after ascertaining standards at other major manufacturers of similar size, industry category, and business type to Kao using officer compensation survey data from an external survey organization. The Company does not have a system for providing retirement benefits to Directors or Audit & Supervisory Board Members.

Compensation Paid to Directors and Audit & Supervisory Board Members in FY2018

Directors	Eight, 480 million yen (Outside Directors: four, 60 million yen)
Audit & Supervisory Board Members	Six, 78 million yen (Outside Audit & Supervisory Board Members: four, 30 million yen)

Note: The above numbers of Directors/Audit & Supervisory Board Members include one Outside Director and one Outside Audit & Supervisory Board Member who resigned at the conclusion of the 112th Annual General Meeting of Shareholders held on March 23, 2018.

The aggregate amount of remuneration of Directors

Michitaka Sawada (Director)	Aggregate amount of remuneration	165 million yen
	Base salary	82 million yen
	Bonus	48 million yen
	Performance-based remuneration	35 million yen

Note: Only Director remuneration amounts totaling over 100 million yen are listed.



Messages from Outside Directors and an Outside Audit & Supervisory Board Member
 →Kao Integrated Report 2019 p. 80-81
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/investor-relations/pdf/reports-fy2019e-all.pdf#page=80