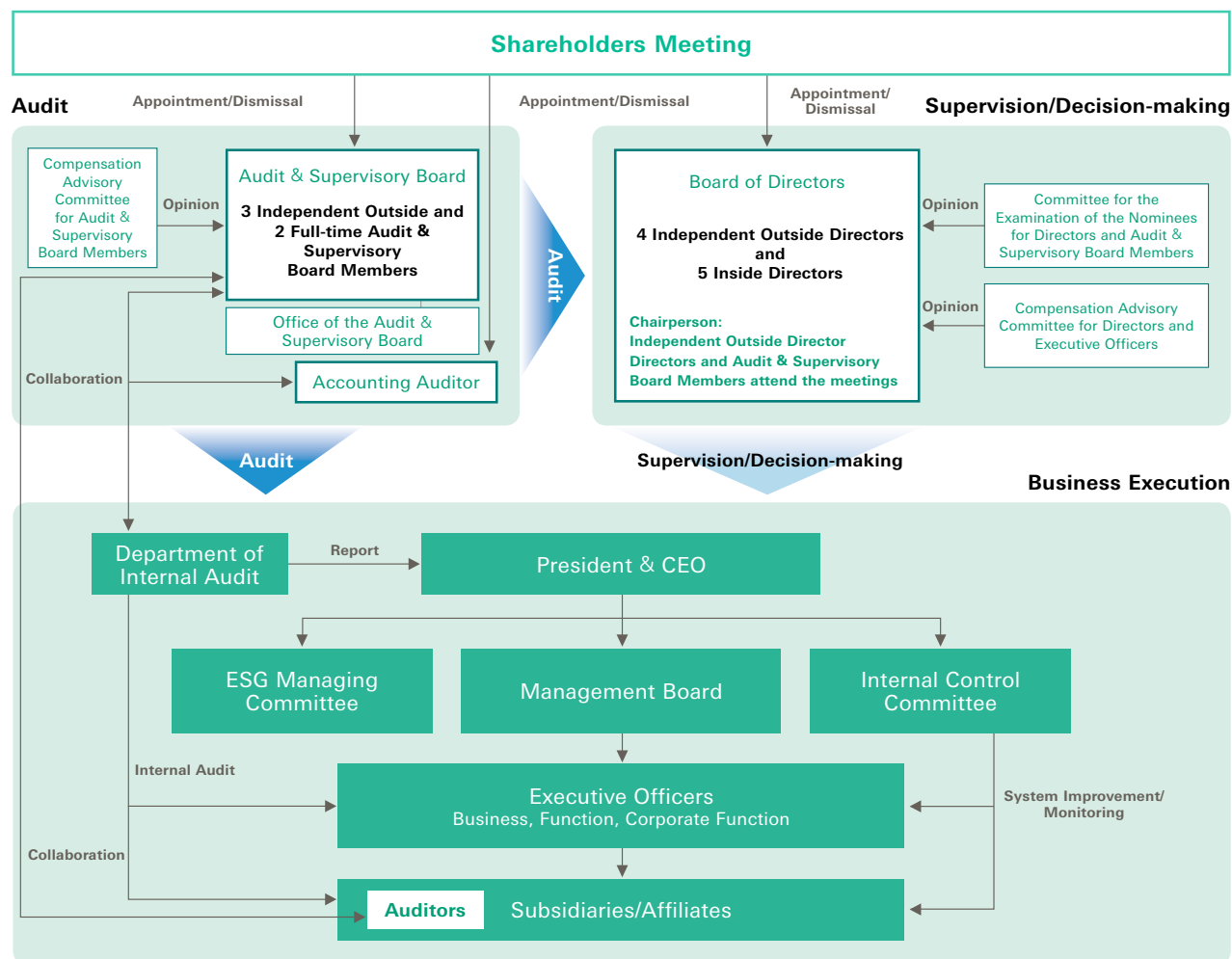


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Basic policy

In order to sustainably enhance corporate value over the long term while working to realize a Kirei World in which all life lives in harmony, which is our purpose, and to become an essential company in a sustainable world, as raised in K25, Kao positions corporate governance as a top-priority management issue and continuously strengthens governance in both systems and operations. Kao's corporate governance is a framework for transparent, fair, prompt and decisive decision-making. It takes into account the perspectives of all stakeholders and responds in a timely and appropriate manner to changes that are increasingly diverse, complex, and difficult to predict so that we can contribute to society and continuously enhance corporate value. The foundations of our efforts to achieve this are establishing and operating the necessary management structures and internal control systems, implementing the necessary measures in a timely manner, and demonstrating accountability. In addition, we work to understand social trends at all times and actively engage in dialogue with stakeholders to review the status of corporate governance from time to time and implement appropriate and necessary countermeasures and improvements.

Corporate governance structure (As of May 2022)



Corporate governance 102-18

Features of Kao's corporate governance

To realize a Kirei World in which all life lives in harmony	We position the establishment of effective corporate governance systems as the foundation and a driver for achieving our purpose to realize a Kirei World in which all life lives in harmony.
Integrity as the only choice	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 Integrity as the only choice, 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 for today and tomorrow	We have pursued creation of the most optimal structure to respond to changes in the business environment as well as social demands. At the Annual General Meeting of Shareholders held in March 2022, we appointed nine Directors, including one American Director and two female Directors, in order to ensure greater diversity on the Board of Directors and to further strengthen oversight in decision-making from the ESG management and global perspectives that Kao seeks. We are working to enhance corporate value by reviewing our systems and operations to achieve a higher level of corporate governance.
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 14 members of the Board of Directors/Audit & Supervisory Board Members independent and outside members and having an Outside Director serve as Chairperson 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.

Kao's path toward strengthened governance

2000	Introduced objective perspectives Established the Advisory Committee	2009	Kao Environmental Statement formulated, and ecology-centered management adopted Established the Sustainability Committee	2017	Strengthened information disclosures based on integrated thinking First Integrated Report issued
2001	Introduced a stock option plan Abolished retirement benefits	2010	Established Standards for Independent Outside Directors/ Outside Audit & Supervisory Board Members	2018	Introduced performance-based share incentive plan Established the ESG Committee
2002	Introduced the Outside Director system Introduced the Executive Officer system	2013	Strengthened information dissemination regarding mid- to long-term sustainability Kao Group Mid-term Plan (K15) formulated	2019	Announcement of a major shift to ESG-driven management Established the ESG External Advisory Board Evaluation of the effectiveness of the Committee for the Examination of Nominees for Directors and the Compensation Advisory Committee started
2003	Divided management supervision and execution Appointed the President and lower positions as Executive Officers Established the Committee for the Examination of Nominees for Chairperson of the Board and the President and Chief Executive Officer Established the Compensation Advisory Committee for Directors and Executive Officers Established the Department of Internal Audit	2014	Smaller Board of Directors established (to accelerate business execution) and transparency ensured Transformation to the Committee for the Examination of Nominees for Directors and Executive Officers A majority of the Board of Directors are Outside Directors An Outside Director appointed as Chairperson of the Board of Directors	2020	Formulation of K25 and ESG positioned at the core of management Transformation to the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members Established the Compensation Advisory Committee for Audit & Supervisory Board Members
2006	Companies Act came into effect Established the Internal Control Committee Commenced meetings to exchange opinions between Representative Directors and Audit & Supervisory Board Members Introduced share remuneration type stock options	2015	Started applying the Corporate Governance Code Transformation to the Committee for the Examination of Nominees for Directors Evaluation of the effectiveness of the Board of Directors		
		2016	Evaluation of the effectiveness of the Audit & Supervisory Board Revised the Outside Director compensation system to not link to business performance		

Corporate governance

Stance on balance among knowledge, experience and skills, and on diversity and the size of the Board of Directors

At the Board of Directors meetings, Directors present the major directions of management strategies, etc., and Directors and Audit & Supervisory Board Members deliberate on their appropriateness and risks involved in their implementation from objective and multifaceted perspectives, while appropriately supervising and auditing the execution of these strategies. To this end, we believe that it is essential that Inside and Outside Directors and Audit & Supervisory Board Members with diverse knowledge, experience, and skills exchange opinions and engage in constructive dialogue from a variety of perspectives.

Based on the vision of “protecting future lives” and promoting “sustainability as the only path,” as stated in K25 in order to realize a Kirei World in which all life lives in harmony, which is our purpose, we deliver products and services that protect the healthy lives of people and consumers and customers by leveraging our advanced technologies developed through extensive R&D including fundamental research from an ESG perspective. In addition, we make further strategic investments and expand existing businesses with the aim of creating new

business that protect future lives by utilizing digital transformation with an eye toward the global environment and human life. To support these activities, we supervise from objective and diverse perspectives and build systems that can be verified from professional perspectives such as accounting, finance, and legal with the aim of achieving continuous improvement.

To achieve these objectives, the Board of Directors considers it is important for Inside and Outside Directors and Audit & Supervisory Board Members to complement each other with each of their knowledge, experience, and abilities and to be able to demonstrate high effectiveness as a whole.

In addition to knowledge, experience and ability, we recognize the diverse perspectives that come from diversity of the Board of Directors in terms of gender, nationality, race and age contribute to the promotion of business, global expansion and proper supervision and auditing, and promotes the appointment of such diverse personnel as Directors and Audit & Supervisory Board Members. Our target for the ratio of female on the Board of Directors is 30% by 2025.

We set the appropriate size of the Board of Directors in consideration of the balance between having diverse personnel required to conduct the proper deliberations and supervision of execution and a small Board of Directors to accelerate decision-making for dealing with business expansion and other matters, on the premise of the delegation of

responsibility to appropriately placed Executive Officers. We aim to have Outside Directors comprise approximately half of the Board of Directors to ensure its diversity and influence and emphasizes their independence. In addition, we aim to have a majority of Outside Audit & Supervisory Board Members who meet the Standards for Independence.

Corporate governance 102-22

Skill matrix and attending members

Name	Affiliation			Experience/Knowledge/Expertise								
	Term of office	Gender	Nationality	ESG	Management	Global	Development/ Manufacturing	Business/ Sales	Business innovation	Risk/Legal regulations	Finance/ Accounting	
Directors	Michitaka Sawada	13 years 9 months	Male	Japan	✓	✓		✓		✓		
	Yoshihiro Hasebe	6 years	Male	Japan	✓	✓		✓		✓		
	Toshiaki Takeuchi	8 years	Male	Japan		✓			✓			
	Tomoharu Matsuda	3 years	Male	Japan		✓	✓	✓	✓			
	David J. Muenz	—	Male	United States	✓		✓	✓	✓			
	Osamu Shinobe	4 years	Male	Japan		✓	✓	✓	✓	✓	✓	
	Chiaki Mukai	3 years	Female	Japan	✓		✓			✓		
	Nobuhide Hayashi	3 years	Male	Japan		✓	✓			✓		✓
	Eriko Sakurai	—	Female	Japan		✓	✓	✓	✓	✓		
Audit & Supervisory Board Members	Hideko Aoki	3 years	Female	Japan	✓			✓			✓	
	Sadanao Kawashima	1 year	Male	Japan			✓					✓
	Hideki Amano	5 years	Male	Japan	✓		✓					✓
	Nobuhiro Oka	4 years	Male	Japan	✓						✓	
	Takahiro Nakazawa	2 years	Male	Japan	✓							✓

Note: The areas of experience, knowledge, and expertise of each Director and Audit & Supervisory Board Member that are particularly expected of them are marked with “✓.”

Corporate governance

Skill matrix and attending members

Name	Primary reason for marking with "✓"	Attending organization					Attendance in FY2021		
		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	Board of Directors	Audit & Supervisory Board	
Directors	Michitaka Sawada	● Experience in Kao R&D ● Experience as Kao Representative Director, President and Chief Executive Officer ● Chairman of the Japan Clean Ocean Material Alliance (CLOMA)	✓			✓		100% (15/15)	—
	Yoshihiro Hasebe	● Experience in Kao R&D (including ESG knowledge) ● Experience in the Kao Strategic Innovative Technology	✓			✓	✓	100% (15/15)	—
	Toshiaki Takeuchi	● Representative Director, President, Kao Group Customer Marketing Co., Ltd.	✓			✓		100% (15/15)	—
	Tomoharu Matsuda	● President, Consumer Products, Global ● Experience in managing Kao overseas subsidiaries	✓			✓		100% (15/15)	—
	David J. Muenz	● Experience as the head of research and chief of business at Kao overseas subsidiary ● Senior Vice President, ESG, Global	✓					—	—
	Osamu Shinobe	● Experience as the top executive of major international airline	Chair		✓	✓	✓	100% (15/15)	—
	Chiaki Mukai	● Medical Doctor and astronaut ● Experience in taking on challenges in new fields, such as serving as an astronaut and in academic research	✓		Chair	✓		100% (15/15)	—
	Nobuhide Hayashi	● Experience as the top executive of a major international financial institution	✓		✓	Chair		100% (15/15)	—
	Eriko Sakurai	● Experience as the regional head of a major international chemical company ● Experience as an outside director of major corporations	✓		✓	✓		—	—
Audit & Supervisory Board Members	Hideko Aoki	● Experience as a Kao Managing Executive Officer ● Experience in the Kao Product Quality Management ● Commissioner of the consumer-related commissions of the government	✓	Chair				100% (15/15)	100% (10/10)
	Sadanao Kawashima	● Experience in Kao Finance Department (including overseas experience) ● Experience in the Kao Department of Internal Audit	✓	✓				100% (13/13)	100% (8/8)
	Hideki Amano	● Certified Public Accountant (including overseas experience)	✓	✓	✓	✓	Chair	100% (15/15)	100% (10/10)
	Nobuhiro Oka	● Attorney-at-Law ● Professor, Keio University Law School	✓	✓	✓	✓	✓	100% (15/15)	100% (10/10)
	Takahiro Nakazawa	● Certified Public Accountant	✓	✓	✓	✓	✓	100% (15/15)	100% (10/10)

Note: Members attending each organization are marked with "✓."

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Initiatives to enhance the effectiveness of the Board of Directors

Kao is implementing the following initiatives to ensure that the Board of Directors and Audit & Supervisory Board Members fulfill 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 and Outside Audit & Supervisory Board Members

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.
An Outside Director serves as Chairperson of the Board of Directors	—	By appointing an Outside Director to serve as Chairperson 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 Chairperson of the Board of Directors to sit in on meetings of the Management Board	Three to four times a month	Having the Chairperson of the Board sit in on meetings of the Management Board, which constitutes the highest executive decision-making body, creates opportunities for the Chairperson to directly access information relating to important executive issues and the state of discussion regarding those issues. When meetings of the Board of Directors are held, the Chairperson 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	Twice a year	Having Outside Directors and Outside Audit Supervisory Board Members visit Kao's overseas and domestic markets, offices, factories and retailers creates opportunities for them to directly access information relating to the frontline of our operations. Since FY2020, due to the spread of the COVID-19 pandemic, visits were made only to worksites within Japan.

Board of Directors

The Board of Directors deliberates on major management directions from multiple perspectives, including risk assessment, and supervises the appropriate execution of management strategy. It also puts in place an environment conducive to offensive management that clearly identifies risks, by establishing an internal control system and risk management system. In FY2021, the Board discussed many topics under K25, engaging in free and open exchanges of opinions. In addition to the items noted below, the board receives business execution reports from Directors serving as Executive Officers, and receiving reports on matters discussed during meetings of the Management Board from the Executive Officer in charge (the Board met 15 times in FY2021).

Major topics deliberated by the Board of Directors in FY2021

- Corporate philosophy ● Deliberate on the revision of the Kao Way
- Mid- to long-term strategies ● Report on strategies for implementing K25
 - Strategic meeting reporting
 - Digital Life Platform reporting
 - Reborn Kao and Another Kao progress report
- Capital policy ● Financial strategy reporting
- Corporate Governance ● Department of Internal Audit report
 - Audit & Supervisory Board Members audit report
 - Deliberate on disclosure of corporate governance
- Others ● Report on human capital strategy
 - ESG Committee activity report

Corporate governance

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 FY2021 evaluation, once again, a survey was conducted, and feedback on the survey results were provided before engaging in discussion and exchange of opinions.

Results of evaluation of the effectiveness in FY2019

Main implementation items

- Human capital strategy: A certain amount of discussion was held on finding and developing global and diverse human resources, and a common understanding of the issues was achieved.
- Interactive communication between management and execution: Several Executive Officers made presentations and discussed forward-looking mid- to long-term strategy with the Board of Directors, deepening mutual understanding through a direct exchange of opinions.
- Internal controls: The number of incidents of negative information being sent to the Board of Directors and the pace of sending that information improved.
- Deep discussion on the ESG Strategy resulted in a public declaration of intent.

Future issues

- Human capital strategy: Deeper discussion will be conducted on finding and developing young human capital, using human resources from external sources as well as human resource requirements and training plan based on ideals.
- Internal controls: Further improvements are needed in getting reports from operational sites and in facilitating cross-division cooperation. Discussions on the background and core elements of events that have happened are also needed.
- It is also necessary to set aside time to discuss key directions of the Kao Group, such as the mid-term plan, human capital strategy, global strategy, and M&A strategy.

Results of evaluation of the effectiveness in FY2020

Main implementation items

- There was discussion on whether or not the degree of achievement of K20 was affected by the COVID-19 pandemic.
- The process of formulating K25 involved a lively exchange of opinions and adequate discussion over an extended period of time, which deserves a positive evaluation.
- The composition of the Board of Directors is well-balanced and with inappropriate levels for realization of K25.
- The main direction was fully discussed through deliberation on K25.

Future issues

- In order to achieve K25, it is necessary to continue discussions on mechanisms for monitoring progress, large-scale investment and strategic measures, and solutions to circumstances that hinder implementation.
- Human capital strategy: We should deepen the discussion on the ideal direction, as well as discussion on how to retain and cultivate the types of human capital that are needed in order to realize K25.
- Internal controls: Development of systems and operational adequacy need to be supervised at all times so that controls can function more effectively.
- The diversity of the Board of Directors and Executive Officers should be discussed and improved.
- Further discussion is needed regarding global strategies and M&A strategies.

Results of evaluation of the effectiveness in FY2021

Main implementation items

- The principal themes of K25 were frequently raised by the Board of Directors, with active discussions conducted in a timely manner.
- Measures that emphasize the furtherance of K25 are being conducted, including promotion of global-minded personnel and young employees, and active utilization of external human capital. Also, a report was made on the introduction status of Objectives and Key Results (OKRs), a new management tool for activating personal growth.
- Negative information and risk information were appropriately reported in a timely manner. In addition, the system now enables rapid response when problems occur.
- A system that enables appropriate monitoring has been established and is in operation. The head of the ESG Division reports on its activities, and there are reports on other agenda items that touch on their relevance to ESG.

Future issues

- It is also necessary to deepen discussions on issues that hinder the realization of K25, measures to solve them, and actions that should be prioritized, and to conduct periodic verification with a greater awareness of the PDCA cycle for the realization of K25.
- Human capital strategy is a management issue for ongoing consideration, and it is necessary to deepen discussions of issues including the promotion of human capital needed for realizing K25, assignment and training of human capital for that purpose, and the evaluation of executive staff.
- It is necessary to continuously verify and discuss whether potential internal control issues are latent in the organization and ongoing supervision is also necessary because problems may arise that were not apparent due to the COVID-19 pandemic.
- It is desirable to further enhance reports on the status of specific activities in each country and division, sharing of information on comparison between Kao's ESG activities and social trends and other matters, and how to communicate externally and collaborate with other companies.

Corporate governance 102-26

Audit & Supervisory Board

Each Audit & Supervisory Board Member performs his/her duty independently to ensure that the Kao Group achieves sound and sustainable growth and establishes governance that respond to the confidence of stakeholders. Audit & Supervisory Board consists of three Outside members and two Full-time members and formulates audit policies and plans. Each member frankly exchanges his/her opinions, deliberates the issues and makes resolutions (the Board held 10 times in FY2021).

Major topics deliberated by the Audit & Supervisory Board

- Enhancing group governance
- Trends in social demands such as revision of the Corporate Governance Code and identification of current issues in Japan and overseas
- Status of development and operation of the internal control system
- Dealing with Whistleblowing
- Report on the activities of Full-time Audit & Supervisory Board Members
- Organizing Audit & Supervisory Board Member related rules
- Evaluation of the effectiveness of the Audit & Supervisory Board

Audit Policies and key audit items

Audit & Supervisory Board conducts its duties in accordance with its audit policies which reflect management policies and strategies based on K25, changes in the social environment and stakeholders' requirements, summarize its activities through effectiveness evaluations, and review and identify issues which should be dealt with in the following fiscal year as key audit items.

(i) Audit Policies

- The Audit & Supervisory Board verifies the management decision-making process and the execution of business at meetings of Board of Directors and other important meetings and further interviews divisions and group companies to verify the degree to which the management policies have been instilled in them and audit the management policies to check that the sound management of Kao Group is ensured.
- The Board audits the effectiveness of group governance with a focus on the prevention of material losses from being incurred when auditing the establishment and operation status of the internal control of Kao and its group companies. The Board further verifies the future direction of the Kao Group's internal control set by the divisions which promote the internal control in response to management strategies that create new business domains and new business models.
- The Board strengthens co-working with auditors of group companies and the Accounting Auditor and endeavors to improve the effectiveness and efficiency of audits in light of changes in the social environment that affect governance. Further, verifies that information is disclosed in a more appropriate and proactive manner.

(ii) Key audit items


- Implementation of the K25 in its first year
- Establishment and operation status of internal control of Kao and Group companies
- Improvement of the effectiveness of group governance
- Disclosure of information in a more appropriate and proactive manner

Corporate governance 102-28

Activities and evaluation of effectiveness in FY2021

The main activities of Audit & Supervisory Board Members in FY2021 are as indicated in the table on the right. The Audit & Supervisory Board conducts an annual effectiveness evaluation to improve the effectiveness of audit activities every year. It determines evaluation items mainly focused on main audit items, each Audit & Supervisory Board Member makes evaluation by him/herself and they discuss the result of the evaluation and identify issues at the Audit & Supervisory Board. The Audit & Supervisory Board reflects the results in its next year's plan and strive to continuously improve effectiveness. The Audit & Supervisory Board deliberated on the results of the evaluation of the effectiveness of audit activities for FY2021 and concluded that it was functioning effectively. The Audit & Supervisory Board will also focus on information disclosures that satisfy the demands of society and stakeholders in the coming fiscal year.

Activities and evaluation of effectiveness in FY2021

Main Audit Items	Main activities (numbers of times are results for FY2021)	Evaluation of effectiveness and identified issues
Directors' execution of duties	<ul style="list-style-type: none"> Attended meetings of the Board of Directors (15 meetings), checked deliberations and resolutions, and expressed opinions, as necessary. Held meetings to exchange opinions with the Representative Directors of Kao and its important subsidiaries (6 meetings) as well as with the Outside Directors (3 meetings) and shared findings obtained from audit activities and made advices. 	<ul style="list-style-type: none"> Attended meetings of the Board of Directors and other important meetings and spoke without restrictions and audit the status of deliberations. In the first year of K25, Audit & Supervisory Board Members frankly shared awareness of issues at meetings with Representative Directors, confirmed the degree of penetration of K25 through interviews focusing on dialogue with each division and group company, and worked to improve the effectiveness of supervision. Progress is being made on new challenges, the conventional approach still continues, and in the next fiscal year Audit & Supervisory Board will focus on the effects of structural reforms and the speeding up of implementation.
	<ul style="list-style-type: none"> Attended important meetings such as meetings of Management Board, Committee, and Internal Control Committee (139 meetings), verified the decision-making process, and requested explanations, as necessary, and made advices from time to time. Verified the degree to which K25 had been instilled in Kao's worksites, divisions, and domestic and overseas group companies by conducting dialog-oriented on-site visits and interviews. 	
Internal controls	<ul style="list-style-type: none"> Attended meetings of the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members, the Compensation Advisory Committee for Directors and Executive Officers, and Compensation Advisory Committee for Audit & Supervisory Board Members for review and discussion. 	<ul style="list-style-type: none"> The "system to supervise Directors" was generally appropriate, as it simultaneously checked the status of the development and operation of the internal control system. FY2021 was focused on the speed of self-inspection and improvement in the first line of internal control, and the monitoring status in the second line, confirming the improvement against the issues in the previous fiscal year. The effectiveness of on-site visits and interviews was improved as a result of the measures described on the left. Going forward, Audit & Supervisory Board will focus on steady operation and consideration of diversity such as monitoring methods for overseas group companies and cooperation with business partners.
	<ul style="list-style-type: none"> Audited the status of business execution and the establishment and operation of internal control systems for worksites, divisions, and domestic and overseas Group companies. Audited the status of monitoring with the divisions who are in charges of second line of the internal control, such as the Legal and Governance Department and the Risk Management and Responsible Care. The above on-site visits and interviews were conducted as in previous years (115) while making use of remote auditing techniques such as online meetings in timely manner. Approximately 70% of such procedures were attended by at least one Outside Audit & Supervisory Board Member. To improve the efficiency and effectiveness of audits, interviews focused on specific topics and the exchange of opinions. The interview method has been improved by reconfirming the previously identified issues at the start, arranging the Audit & Supervisory Board Members' comments into requests and advice at the end, and extracting and sharing best practices. 	
Group governance	<ul style="list-style-type: none"> Exchanged opinions with the Department of Internal Audit, which is an internal audit division, on a regular basis and as-needed basis to improve the effectiveness of audits. 	<ul style="list-style-type: none"> The Audit & Supervisory Board is promoting co-working with the Department of Internal Audit and auditors of group companies. On the other hand, there are many auditors at group companies who have concurrent positions. As issues are being identified through fact-finding surveys, the system is being reviewed, and some members of the newly established Office of the Audit & Supervisory Board in January 2022 will be appointed as auditors of some group companies, which will promote cooperation and result in improved effectiveness of the audit function in the future. The Audit & Supervisory Board works closely with the Accounting Auditor while monitoring the independence and appropriateness of audits.
	<ul style="list-style-type: none"> Worked closely with auditors of group companies to improve the effectiveness of audits by holding regular meetings to exchange opinions with them and requesting such group company's auditor to attend at Audit and Supervisory Board's interviews on their group companies. Received an annual audit plan, accounting audit findings (quarterly reviews and annual audit findings), and key audit matters (KAM) from and exchange opinions with Accounting Auditor while monitoring the independence and appropriateness of audits (on 23 meetings). 	

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Internal audit

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 Board 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 both social contribution and sustainable enhancement of corporate value, we made adjustments to the long-term incentive compensation indicators

starting in FY2021. Specifically, the new evaluation system is multifaceted from three perspectives, moving away from the traditional focus on financial indicators to include growth potential evaluation indicators that measure how well business has grown, ESG potential evaluation indicators that measure how well Kao has implemented activities for ESG-driven management, and management potential evaluation indicators that measure the overall implementation of management activities through evaluation in employee awareness surveys and other measures.

As regards short-term incentive compensation, EVA and consolidated net sales and income are used as the evaluation indicators. EVA 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 and can help to foster a sense of unity with employees.

FY2021 review of long-term incentive compensation indicators

Details of review	Objectives
Introduce business growth evaluation indicators* * Business growth rate of net sales, profit, etc.	Reflect in compensation the degree of growth of the Kao Group's business
Introduce ESG activities evaluation indicators** ** Evaluation by external indicators, and extent of achievement of internal goals (such as the Kirei Lifestyle Plan), etc.	Reflect in compensation the degree of implementation of activities aimed at ESG management sought by the Kao Group
Introduce top management activities evaluation indicators*** *** Evaluation of management activities by Kao employees, etc.	Reflecting in compensation the overall achievement of management activities based on evaluations conducted through employee surveys, etc.

Corporate governance

Summary of compensation system for Directors, Audit & Supervisory Board Members and Executive Officers

	Base salary	Short-term incentive compensation		Long-term incentive compensation		
		Bonus		Share incentive		
		EVA-linked part	Consolidated net sales/profit-linked part			
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 <ul style="list-style-type: none"> 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		In the case of a serious compliance violation by the individual in question during the period from the start date of coverage by the system to three years after the final delivery of shares and so on, the Company claims that the delivered shares and so on must be returned.		
Performance evaluation period	–	1 year		5 years (2021–2025)		
Evaluation indicator	–	EVA	<ul style="list-style-type: none"> Consolidated Net Sales Income (Gross Profit Less Selling and General and Administrative Expenses) 	Business growth (40%)	ESG activities (40%)	Top management activities (20%)
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% <ul style="list-style-type: none"> 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: 30–35% of base salary 		The yearly share remuneration amount when the variable component coefficient is 100% <ul style="list-style-type: none"> About 30%–50% of the base salary of the position 		
Eligible for provision	<ul style="list-style-type: none"> Directors Executive Officers Auditors 	<ul style="list-style-type: none"> Directors (Except for Outside Directors) Executive Officers 		<ul style="list-style-type: none"> Directors (Except for Outside Directors) Executive Officers 		
Applicable period	–	1 year		5 years (2021–2025)		

Corporate governance

Compensation structure for Directors



* In the case of the Representative Director, President and Chief Executive Officer.

* In the case where the variable component coefficient and the payout rate are both 100%.

Compensation paid to Directors in FY2021

Classification	Number of persons (Persons)	Aggregate amount of remuneration (Millions of yen)	Amount of remuneration by type (Millions of yen)			
			Base salary	Short-term incentive compensation (Performance-based bonus)	Long-term incentive compensation (Performance-based share incentive)	
					Variable part (Performance-based part)	Fixed part
Directors (of Outside Directors)	8 (4)	467 (75)	324 (75)	39 (-)	73 (-)	31 (-)
Audit & Supervisory Board Members (of Outside Audit & Supervisory Board Members)	6 (3)	82 (30)	82 (30)	- (-)	- (-)	- (-)
Total (of Outside Directors and Audit & Supervisory Board Members)	14 (7)	549 (105)	406 (105)	39 (-)	73 (-)	31 (-)

Note: 1. The above numbers of Directors/Audit & Supervisory Board Members include one Audit & Supervisory Board Member who resigned at the conclusion of the 115th Annual General Meeting of Shareholders held on March 26, 2021.

2. The variable part (performance-based part) of the long-term incentive compensation (performance-based share incentives) will be determined after the final year of our K25 mid-term plan, which covers the five fiscal years from 2021 to 2025, and therefore, the variable part (performance-based portion) is the amount recorded as a provision for the most recent fiscal year.

Compensation paid for individual directors in FY2021

Name (Director classification)	Aggregate amount of remuneration (Millions of yen)	Corporate classification	Amount of remuneration by type (Millions of yen)			
			Base salary	Short-term incentive compensation (performance-based bonus)	Long-term incentive compensation (performance-based share incentive)	
					Variable part (performance-based part)	Fixed part
Michitaka Sawada (Director)	125	Submitting company	99	0	18	8
Yoshihiro Hasebe (Director)	139	Submitting company	82	22	24	11

Note: 1. Only Director remuneration amounts totaling over 100 million yen are listed.