

Corporate Governance

GRI 2-9, 2-11

Strengthened in both systems and operations as a top-priority management issue

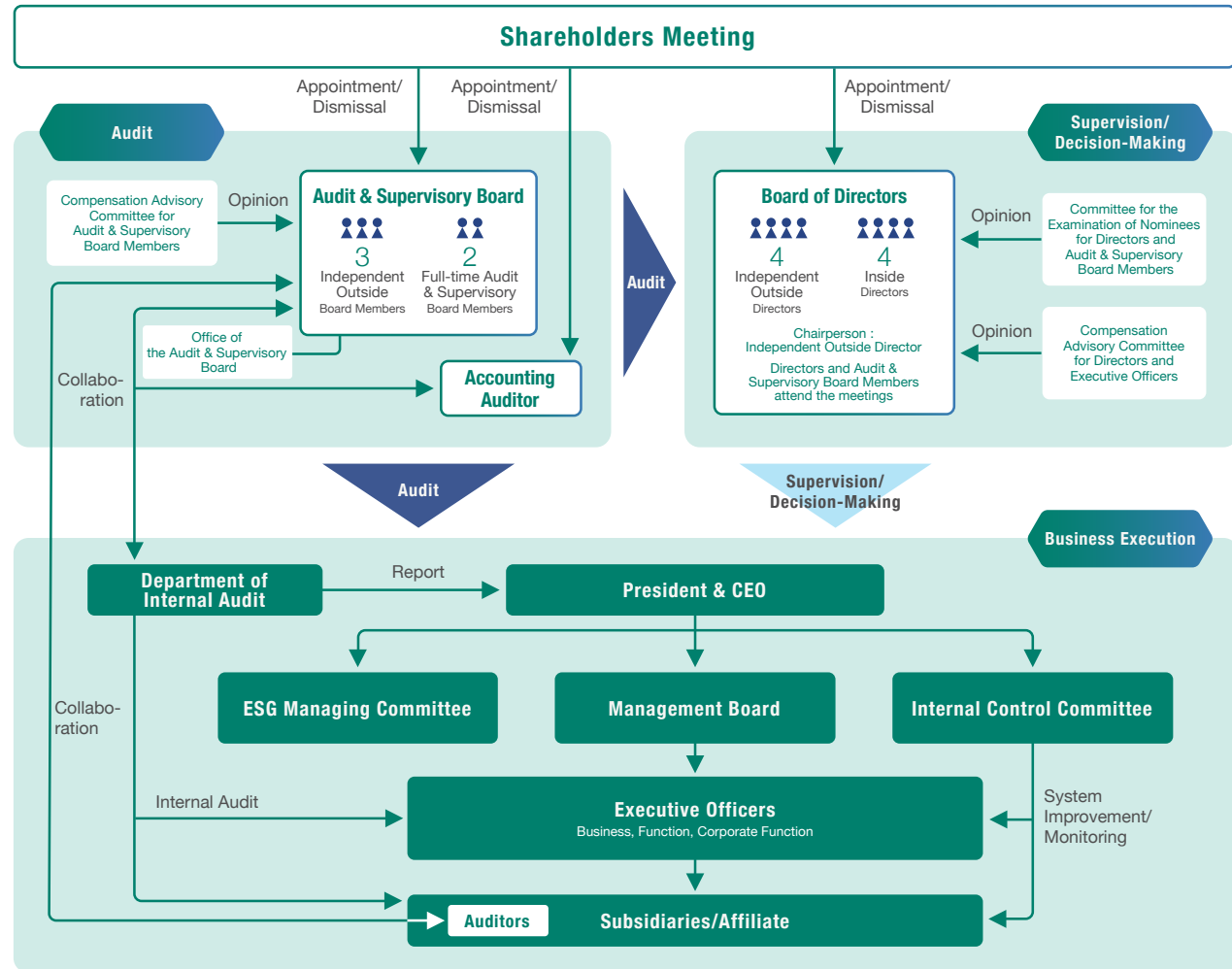
In order to sustainably enhance corporate value over the long term while working to realize a Kirei World in which all life lives in harmony, which is our Purpose of our corporate philosophy "The Kao Way," and to become an essential company in a sustainable world, Kao positions corporate governance as 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 required 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.

To further enhance discussions on corporate governance and make disclosures to stakeholders easier to understand, Kao compiled in July 2023 a Corporate Governance Policy that had been disclosed in the Corporate Governance Report and other materials.

Corporate Governance Structure
As of March 22, 2024



Kao Corporate Governance Policy
<https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/corporate/policies/pdf/governance-policy.pdf>

Corporate Governance GRI 2-9

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

At Board of Directors meetings (attended by Directors and Audit & Supervisory Board Members), Directors provide broad direction regarding business strategies and Directors and Audit & Supervisory Board Members deliberate on their appropriateness and the risks related

to their realization and other matters in an objective and multidimensional fashion.

The Kao Group Mid-term Plan K27 includes the vision of “Protecting future lives.” To accomplish this, the Company’s management is executing business in line with the Company’s strategies of (1) becoming an essential company in a sustainable world, (2) transforming to build robust business through investment, and (3) maximizing the power and potential of employees.

The Board of Directors considers it 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 order to supervise that management is implementing business execution in a framework for transparent, fair, prompt and decisive decision-making accordance with the above strategies.



Pages 21 to 23 in the Notice of the 118th Annual General Meeting of Shareholders
https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/investor-relations/pdf/shareholders_2024_001.pdf

Directors and Audit & Supervisory Board Members Skill Matrix (As of March 22, 2024)

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

	Attributes			Experience/Knowledge/Expertise											Main reasons for marking “✓”
	Term of office	Gender	Nationality	Management	Global	Consumer goods industry	Chemical industry	Human capital strategy	Research	Environment/society	IT/DX	Legal/risk management	Finance/accounting		
Directors	Yoshihiro Hasebe	8 years	Male	Japan	✓	✓	✓	✓	✓	✓	✓			<ul style="list-style-type: none"> ● Experience in the Company's Research and Development (including experience in global operations, and knowledge of fundamental and applied technologies and matter cycle research) (Doctor of Engineering) ● Experience at the Company's overseas business promotion projects ● Experience as the Company's Senior Vice President of Strategic Innovation Technology, Global ● Experience as the Company's officer responsible for Human Capital Development 	
	Masakazu Negoro	1 year	Male	Japan		✓		✓					✓	<ul style="list-style-type: none"> ● Experience in the Company's Chemical Business and management experience at overseas subsidiaries (Chemical Business) ● Experience at the Company's Procurement, Global (including promotion of sustainability activities in procurement) ● Experience as the Company's officer responsible for Accounting and Finance 	
	Toru Nishiguchi	1 year	Male	Japan		✓	✓							<ul style="list-style-type: none"> ● Experience in the Company's Consumer Products Business ● Experience in management and global marketing at the Company's overseas subsidiaries ● MBA 	
	David J. Muenz	2 years	Male	United States		✓	✓			✓	✓			<ul style="list-style-type: none"> ● Experience in research and business at the Company's overseas subsidiary ● Experience in the Company's ESG, Global 	
	Osamu Shinobe	6 years	Male	Japan	✓						✓		✓	<ul style="list-style-type: none"> ● Experience as the top executive of a major international airline (including experience as Chairman of CSR and Environmental Management Committee) 	
	Eriko Sakurai	2 years	Female	Japan	✓	✓		✓	✓		✓			<ul style="list-style-type: none"> ● Experience as the head of a global division and the regional head of a major U.S. chemical company ● Experience in overall human resources strategy including compensation, development, and assignment in global businesses ● Knowledge of sustainability in the chemical field 	
	Takaaki Nishii	1 year	Male	Japan	✓	✓	✓		✓					<ul style="list-style-type: none"> ● Experience as the top executive of a major food company ● Experience in the management of overseas subsidiaries ● Experience in the human resources department 	
	Makoto Takashima	-	Male	Japan	✓	✓								✓	<ul style="list-style-type: none"> ● Experience as the top executive of a major financial institution ● Experience in international and corporate planning departments
Audit & Supervisory Board Members	Yasushi Wada	1 year	Male	Japan		✓					✓		✓	<ul style="list-style-type: none"> ● Experience in the Company's Product Quality Management ● Experience at the Company's global production sites ● Experience in the Company's process engineering development and plant management 	
	Sadanao Kawashima	3 years	Male	Japan									✓	<ul style="list-style-type: none"> ● Experience in the Company's Accounting and Finance ● Experience in the Company's Internal Audit 	
	Hideki Amano	7 years	Male	Japan		✓			✓				✓	<ul style="list-style-type: none"> ● Certified Public Accountant ● Served overseas and as the head of the global audit network for the Asia-Pacific region ● Experience in human capital strategy, risk management, etc., as the COO of audit and consulting operations 	
	Nobuhiro Oka	6 years	Male	Japan									✓	<ul style="list-style-type: none"> ● Attorney-at-Law ● Ph.D. in Law (Chuo University) ● Professor at Keio University Law School 	
	Saeko Arai	-	Female	Japan		✓							✓	✓	<ul style="list-style-type: none"> ● Certified Public Accountant Experience as a representative of a U.S. corporation ● Experience as a partner of an IT venture company

Corporate Governance

GRI 2-18

How the Board of Directors should function and evaluation of its effectiveness

How the Board of Directors should function

Kao's Board of Directors will delegate authority to a substantial degree to the executive organizations, and further strengthen its monitoring function to encourage appropriate risk-taking and prompt and bold decision-making by management. In particular, the Board will effectively supervise the appropriate allocation of management resources, including human capital, and the adequate implementation of strategies by management. It also recognizes that it is the responsibility of the Board to develop internal controls and risk and crisis management systems, and will build and operate these systems appropriately.

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, the Company believes that it is effective for all members who participate in meetings of the Board of Directors, including Audit & Supervisory Board Members, to conduct evaluations using a method that entails the expression of opinions and free and open discussion.

Furthermore, the Company also recognizes the usefulness of an objective evaluation by a third party, with an eye to introducing activities that further enhance the effectiveness of the Board of Directors. At the 2023 evaluation, the Company received advice from a third party.



Corporate Governance Report
<https://www.kao.com/global/en/corporate/policies/corporate-governance/>

Please refer to the Corporate Governance Report for information on the activities of the Board of Directors and details on the evaluation of the effectiveness of the Board of Directors, as well as the evaluation of the Committee for Examination of Nominees for Directors and Audit & Supervisory Board Members and the Compensation Advisory Committee for Directors and Executive Officers.

Results of the FY2023 evaluation of the effectiveness of the Board of Directors

Overall, it was found that the Board of Directors has adequately exercised its supervisory functions, and that its effectiveness has been maintained. However, the evaluation also identified issues to be addressed in order to further improve the Board's effectiveness, and opinions were shared regarding future initiatives.

Agenda item selection and discussions

FY2022 Issues	FY2023 Initiatives	FY2023 Evaluation and Issues	Future Initiatives
<ul style="list-style-type: none"> The issues to be addressed in order to achieve the Mid-term Plan K25 and the interim summary needed to be discussed in greater depth, including in quantitative terms. 	<ul style="list-style-type: none"> A K25 interim summary was provided, and structural reforms and growth strategies were discussed. Focus topics for each business segment were reported. Business status indicators and the progress status of K25 were monitored through monthly meetings of the Board of Directors. 	<ul style="list-style-type: none"> Based on the results of the K25 interim summary, the Mid-term Plan K27 was reformulated, and progress was made in both discussing and implementing structural reforms. Further discussion is needed regarding growth strategies and business segments that are experiencing issues. Further improvements should be made to the monitoring of management indicators under ROIC management. 	<ul style="list-style-type: none"> Allocate time for ongoing discussions at meetings of the Board of Directors, while also being aware of the integration of growth strategies and issued businesses with ESG strategies. Evolve management indicators to be monitored and report regularly on the performance against such management indicators.
<ul style="list-style-type: none"> Stakeholder relations strategies needed to be discussed. 	<ul style="list-style-type: none"> Reports were presented at meetings of the Board of Directors before and after IR activities. 	<ul style="list-style-type: none"> Deliberations are being conducted with greater attention paid to key stakeholders, including investors. Growth strategies need to be demonstrated more clearly. 	<ul style="list-style-type: none"> Continue to engage in deliberations while paying attention to key stakeholders and how to demonstrate growth strategies.
<ul style="list-style-type: none"> Further discussions were needed regarding how human capital strategies relate to business strategies. 	<ul style="list-style-type: none"> Discussed human capital strategies and human capital structural reforms. 	<ul style="list-style-type: none"> Discussions and decisions on the structural reforms in relation to human capital have been given a positive evaluation. It is necessary to deepen discussions regarding what is required of the human capital responsible for growth strategies, and how to develop and acquire said human capital. 	<ul style="list-style-type: none"> Further discuss concrete human capital strategies linked to the growth strategies at meetings of the Board of Directors.

Structure, status of operation and deliberations of the Board of Directors

FY2022 Issues	FY2023 Initiatives	FY2023 Evaluation and Issues	Future Initiatives
<ul style="list-style-type: none"> There were times when the level of reporting was too granular, resulting in unfocused discussions. 	<ul style="list-style-type: none"> Defined the indicators that are needed in order to achieve K25 (and K27). A presentation format was used at meetings of the Board of Directors. 	<ul style="list-style-type: none"> The Board of Directors is appropriately fulfilling its supervisory functions. Presenters should make discussion points clear. 	<ul style="list-style-type: none"> Use the presentation format at all meetings of the Board of Directors, and clearly indicate the discussion points.
<ul style="list-style-type: none"> Ongoing deliberations were needed regarding the necessary elements for realizing the vision of the Board of Directors, as well as the Board's composition. 	<ul style="list-style-type: none"> Corporate governance was discussed, and official policy was formulated and disclosed. 	<ul style="list-style-type: none"> The disclosure of the corporate governance policy is commendable. The composition of the Board of Directors was in line with the corporate governance policy. 	<ul style="list-style-type: none"> The composition of the Board of Directors, including diversity of Directors (skills, women and global human capital), will be discussed on an ongoing basis.

Corporate Governance

The Audit & Supervisory Board Initiatives

The Audit & Supervisory Board Members are entrusted by shareholders to audit the Directors' execution of duties from an independent standpoint and, thus, are engaged in auditing activities to achieve sound and sustainable growth of the Kao Group and establish governance that meets the trust of stakeholders. Regarding our work, the specifics of its activities in 2023 will increase the transparency of the audit and the effectiveness of the dialogue with stakeholders.

Audit Policy

In FY2023, as the business environment remained uncertain in the face of rising geopolitical risks and other factors, we were required to make a major transformation toward achieving profitable growth. Under these circumstances, with a shared sense of urgency and the necessity of reforms recognized by management, the Company adopted a policy to audit the progress of implementation of management strategies and response to management environmental risks while conducting auditing activities, including ESG-related activities, in view of the requests and views of society and stakeholders.

Composition and execution of duties

The Audit & Supervisory Board consists of five Members (two Full-time Members and three Outside Members). The Fulltime Members with extensive internal execution experience and diverse knowledge, and the Outside Members with their respective expertise (certified public accountant, attorney-at-law) and abundant knowledge from experience as officers of

other companies share audit-related information in a timely manner and deliberate from various perspectives.

The Office of the Audit & Supervisory Board was established directly under the Audit & Supervisory Board to assist them with their duties and to allow the office members to serve concurrently as Auditors of subsidiaries.



On-site audits and interviews at Kao Vietnam Plant

Particularly important points in Audit & Supervisory Board Members' activities

Lively exchange of opinions

We attend meetings of the Board of Directors, the Management Board, and other important meetings with regard to auditing the duties of Directors. They put emphasis on confirming the decision-making process for reaching resolutions and expressing their opinions as appropriate.

Dialogue with people at *Genba* (the actual sites)

In addition, we conduct on-site audits and interviews with each division, subsidiary, and affiliate. By placing importance on dialogues with people at *Genba* (the actual sites), they confirm the degree to which the corporate strategy is being shared and whether proactive efforts are being made. They also identify any issues that occur at *Genba*. At least one Outside Member has participated in approximately 60% of the interviews.

Deliberations

Number of meetings held: 11

Attendance rate: All members marked 100%

Duration: Average of 1 hour and 51 minutes

26 resolutions: Audit plans, audit reports, etc.

9 matters considered: Audit findings, revision of Audit & Supervisory Board rules, etc.

Evaluation of the effectiveness

Each year, the Board sets evaluation items, with a focus on critical auditing items, and evaluates the effectiveness of the Board from a multifaceted and objective perspective. In FY2023, through comprehensive and unfettered discussions at the Board meetings based on the self-evaluation by each Member, the exchange of opinions with Representative Directors, and feedback from Outside Directors and other related parties, it was concluded that the system of the Board as a whole was functioning effectively.

For *Genba*, the Board observed and assessed the degree of utilization of ROIC in each business segment and the progress of structural reforms, which are part of management strategies. To that end, they compiled the results of such observation and assessment into a proposal and shared the proposal with the Directors. The Board will continue to observe the ROIC in each business segment. As for the three types of Audits (Audit & Supervisory Board, Accounting Auditor and Department of Internal Audit), to further strengthen the collaboration among them, we understand that we need to share auditing plans and issues with other Audits.

The issues identified through the effectiveness evaluation will be reflected in auditing activities and critical auditing items for FY2024 so that the effectiveness of the Board will be further improved.



The Audit & Supervisory Board Initiatives
<https://www.kao.com/global/en/corporate/policies/corporate-governance/audit/>

Corporate Governance GRI 2-19, 2-20

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

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

Standards, systems and other details for the compensation and other incentives for Directors, Audit & Supervisory Board Members and Executive Officers are established on the basis of the following aims:

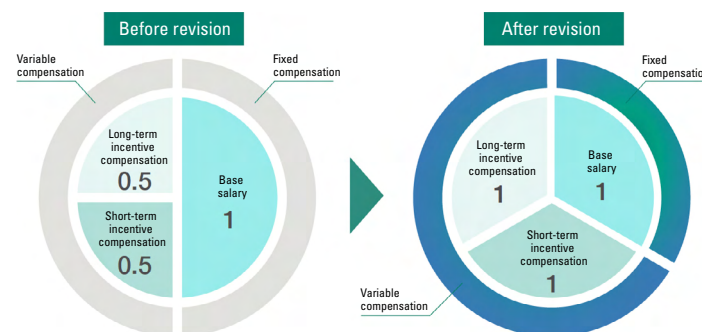
- Securing and retaining diverse, outstanding personnel to establish and enhance our competitive advantage
- Driving concerted initiatives to promote sustainable enhancement of corporate value
- Sharing interests in common with shareholders

Compensation Structure for Directors, Audit & Supervisory Board Members and Executive Officers (In the case that short-term and long-term incentive payout ratio are both 100%)

Compensation for Directors (other than Outside Directors) and Executive Officers consists of a base salary, short-term incentive compensation and long-term incentive compensation. Outside Directors and Audit & Supervisory Board Members are paid a base salary only.

To achieve the ambitious targets for supporting *Global Sharp Top* businesses in K27, we have boosted the function of incentives to encourage bolder risk taking, and we have revised the variable compensation structure to be implemented in FY2024 onward.

Compensation Structure for the Representative Director, President, and Chief Executive Officer

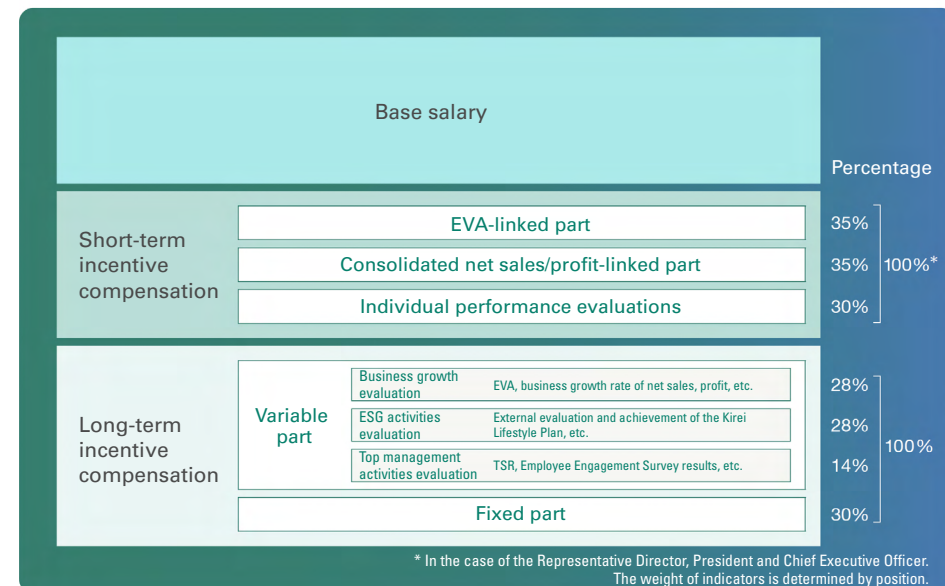


- We have not changed the base salary amount.
- We have revised the percentages of the base salary and short-term and long-term incentive compensation for the Representative Director, President, and Chief Executive Officer to be in the ratio 1:1:1.
- We have revised the percentages of the short-term and long-term incentive compensation for other Directors and Executive Officers to be 30% to 70% of the base salary in accordance with rank.

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

The short-term incentive compensation is paid as bonuses in accordance with the degree of target achievement in a single fiscal year. The evaluation indicators consist of EVA, consolidated net sales and profit, and individual performance, and the bonus payment rate varies from 0% to 200%. The long-term incentive compensation (performance-based share incentives) is a system for delivering shares and other incentives with the aim of further enhance corporate value. This system consists of a variable part that is delivered at a rate from 0% to 200% in accordance with the relevant period and targets of the mid-term plan, and a fixed part whereby a defined number of shares and other incentives are delivered annually.

The adequacy of these incentives is examined by the Compensation Advisory Committee for Directors and Executive Officers.



To encourage further enhancement of corporate value, we have partially revised the long-term incentive compensation to be implemented in FY2024 onward.

Points of revision

- Introduced new evaluation indicators such as EVA and TSR (Total Shareholder Return)
- Expanded the scope for delivering the company's shares (foreign-national Directors, etc.)



Securities Report

<https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/investor-relations/pdf/securities-fy2023-all-01.pdf>