



1-14-10, Nihonbashi Kayabacho, Chuo-ku, TOKYO 103-8210 JAPAN

March 2, 2021

## NOTICE OF THE 115<sup>th</sup> ANNUAL GENERAL MEETING OF SHAREHOLDERS

To Our Shareholders:

Kao Corporation (the “Company”) is pleased to announce that the 115th Annual General Meeting of Shareholders of the Company (“AGM”) will be held on March 26, 2021 at 10:00 a.m., Japan time, at The Prince Park Tower Tokyo, Ballroom, B2 (8-1 Shiba Koen 4-chome, Minato-ku, Tokyo, Japan). The number of seats at the venue has been greatly reduced to ensure social distance, so please consider not coming to the event in person.

At the AGM, Shareholders will be asked to vote on the following agenda items: *(Please note that a shareholder is entitled to one vote per unit of shares, with each unit consisting of one hundred (100) shares.)*

- 1. Proposal for Appropriation of Retained Earnings**
- 2. Election of Eight (8) Directors**
- 3. Election of Two (2) Audit & Supervisory Board Members**
- 4. Partial Revision of the Amount and Other Terms and Conditions of Performance Shares, etc. for Directors, etc.**

As we place great importance to your exercise of voting rights at the AGM, we have attached, for your convenience, English summaries of the Proxy Statement and the Business Report, the originals of which are in the Japanese language and are being distributed to all registered shareholders or their standing proxies in Japan. We strongly urge you to exercise your voting rights at the AGM.

As part of our ongoing effort to improve the quality of communications with our foreign investors and to increase the voting participation of foreign investors at the AGM, the Company has retained Georgeson as our Global Information Agent to assist us with the AGM. If you have any questions, please contact Cherryl Tirol at +001-201-222-4375 or [ctirol@georgeson.com](mailto:ctirol@georgeson.com), or Michael Menahem at +001-201-222-4374 or [mmenahem@georgeson.com](mailto:mmenahem@georgeson.com). The attached materials are also available on our website at [www.kao.com/global/en/investor-relations/stock-information/shareholders/](http://www.kao.com/global/en/investor-relations/stock-information/shareholders/)

**PLEASE CONTACT YOUR BROKER OR CUSTODIAN WITH YOUR VOTING INSTRUCTIONS AS SOON AS POSSIBLE.**

Thank you very much for your attention.

Very truly yours,

Yoshihiro Hasebe  
Representative Director  
President and Chief Executive Officer

ISIN	JP3205800000
SEDOL	6483809
TSE	4452

# Kao Corporation

## English Summary of the PROXY STATEMENT

The Proxy Statement of Kao Corporation (the “Company”) in the Japanese language has been prepared for the purpose of the 115th Annual General Meeting of Shareholders of the Company (the “AGM”) to be held on March 26, 2021 at 10:00 a.m. Japan time, at The Prince Park Tower Tokyo, Ball Room, B2 (8-1 Shiba Koen 4-chome, Minato-ku, Tokyo, Japan), and is to be furnished to all shareholders of the Company holding at least one Unit Share\* (“Shareholders”) of record as of December 31, 2020 (the “Record Date”).

All Shareholders have valid voting rights and are entitled to vote at the AGM. In order to properly transact business at the AGM, Shareholders holding more than one third of all the voting rights as of the Record Date must be present either in person or be represented by proxy at the AGM.

*\*Note: A shareholder is entitled to one voting right per Unit Share, with each Unit Share consisting of one hundred (100) shares.*

### PROPOSAL 1: PROPOSAL FOR APPROPRIATION OF RETAINED EARNINGS

In order to achieve profitable growth, the Company secures an internal reserve for capital investment and acquisitions from a medium-to-long-term management perspective and places priority on providing shareholders with steady and continuous dividends. In addition, the Company flexibly considers the repurchase and retirement of shares from the standpoint of improving capital efficiency.

The following distribution of year-end retained earnings is proposed:

- (1) Matters concerning Assets to be Distributed to Shareholders and Aggregate Amount thereof  
70.00 yen per share of common share of the Company  
Aggregate amount of distribution: 33,721,773,960 yen
- (2) Effective Date of Distribution of Retained Earnings  
March 29, 2021

If this proposal is adopted without any amendment, then, by adding the interim dividends of **70.00 yen per share** to the above year-end dividends of **70.00 yen per share**, the total dividends for this fiscal year will be **140.00 yen per share**, an increase of 10.00 yen per share over the previous fiscal year, representing a consolidated payout ratio of 53.4%.

<p><b>THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 1.</b></p>
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## PROPOSAL 2: ELECTION OF EIGHT (8) DIRECTORS

The terms of office of all eight (8) incumbent Directors will expire at the conclusion of the AGM. Accordingly, the Company proposes that a total of eight (8) Directors, including four (4) Outside Directors, be elected. The nominees for Directors are as shown below.

Provided below is the list of the nominees followed by their personal information and career summary.

Also, if nominee of Proposal 2 and Proposal 3 are elected, as proposed by the Company, there will be four (4) Independent Outside Directors and three (3) Independent Outside Audit & Supervisory Board Members, according to “Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation.” Accordingly, seven (7) out of thirteen (13) attendees of the meeting of the Board of Directors will be independent, so the Company believes that adequate discussions will be possible at the meetings of the Board of Directors, based on such independent and neutral opinions.

Please refer to the following page 16 for details of “Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation.”

No.	Names of Nominees		Status at the Company and Other Material Position(s) Held	Board Tenure	Attendance Rate*
1.	Michitaka Sawada	Re-nomination	Director, Chair [Other material position(s) held] Outside Director, Panasonic Corporation	12 years and 9 months	100% (14/14)
2.	Yoshihiro Hasebe	Re-nomination	Representative Director, President and Chief Executive Officer; Responsible for Human Capital Development	5 years	100% (14/14)
3.	Toshiaki Takeuchi	Re-nomination	Representative Director, Senior Managing Executive Officer [Other material position(s) held] Representative Director, President, Kao Group Customer Marketing Co., Ltd.	7 years	100% (14/14)
4.	Tomoharu Matsuda	Re-nomination	Director, Managing Executive Officer; President, Consumer Products, Global; Responsible for Kao Professional Services Co., Ltd.	2 years	100% (14/14)
5.	Sonosuke Kadonaga	Re-nomination; Outside Director; Independent Director	Director [Other material position(s) held] President, Intrinsic; Member of the Board, Business Breakthrough Inc.; Outside Director, Chairperson of the Audit & Supervisory Committee, Sumitomo Mitsui Banking Corporation; Vice President, Business Breakthrough University	8 years and 9 months	100% (14/14)
6.	Osamu Shinobe	Re-nomination; Outside Director; Independent Director	Director [Other material position(s) held] Special Advisor, ANA HOLDINGS INC.	3 years	100% (14/14)
7.	Chiaki Mukai	Re-nomination; Outside Director; Independent Director	Director [Other material position(s) held] Specially Appointed Vice President, Tokyo University of Science; Astronaut, Medical Doctor; M.D., Ph.D.; Outside Director, Fujitsu Limited	2 years	100% (14/14)
8.	Nobuhide Hayashi	Re-nomination; Outside Director; Independent Director	Director [Other material position(s) held] Senior Advisor, Mizuho Bank, Ltd.; Outside Director, Baroque Japan Limited; Outside Audit & Supervisory Board Member, JTB Corp.; Outside Audit & Supervisory Board Member, TOBU RAILWAY CO., LTD.	2 years	100% (14/14)

**1. Michitaka Sawada** (Date of Birth: December 20, 1955) Re-nomination



Attendance to the Meeting  
of the Board of Directors:  
**14/14 (100%)**

Number of the Company  
shares owned:  
**38,400 shares**

Term of office at the  
conclusion of this AGM:  
**12 years and 9 months**

**[Career summary, status and duties at the Company]**

April 1981	Joined the Company
June 2006	Executive Officer
June 2008	Director, Executive Officer
June 2012	Representative Director, President and Chief Executive Officer
January 2021	Director, Chair (current)

**[Other material position(s) held]**

Outside Director, Panasonic Corporation

**[Reason for appointment as a nominee for Director]**

Ever since assuming office as Representative Director, President and Chief Executive Officer in 2012, Mr. Sawada has been at the forefront in aiming to “Make Kao a company with a global presence” through the best use of the Kao Group’s assets. In the midst of a drastically changing business environment, he led a major shift to ESG management in 2019, strongly promoting the slogan “Transforming ourselves to drive change” under the Kao Group Mid-Term Plan “K20” and made a significant contribution in enhancing corporate value. In January 2021, he assumed the position of Director, Chair and continues to enhance corporate value by supervising management and promoting external activities based on his many years of experience and expertise as Representative Director, President and Chief Executive Officer. Having determined that Mr. Sawada will engage in the aforementioned activities, to thereby ensure sustainable growth of the Kao Group, the Company hereby appoints him as a nominee to continue as a Director.

## 2. Yoshihiro Hasebe (Date of Birth: July 30, 1960)

Re-nomination



Attendance to the Meeting  
of the Board of Directors:  
**14/14 (100%)**

Number of the Company  
shares owned:  
**11,900 shares**

Term of office at the  
conclusion of this AGM:  
**5 years**

### [Career summary, status and duties at the Company]

April 1990	Joined the Company
March 2014	Executive Officer
March 2015	Senior Vice President, Research and Development, Global
January 2016	Managing Executive Officer
March 2016	Director, Managing Executive Officer
January 2018	Director, Senior Managing Executive Officer
April 2018	Senior Vice President, Strategic Innovative Technology, Global
January 2019	Responsible for Compliance
March 2019	Representative Director, Senior Managing Executive Officer
January 2021	Representative Director, President and Chief Executive Officer; Responsible for Human Capital Development (current)

### [Reason for appointment as a nominee for Director]

Over many years, Mr. Hasebe has been involved in R&D activities, and has been the driving force in providing the world with innovative products which contribute to enriching people's lifestyles. Since assuming office as Senior Vice President, Strategic Innovative Technology, Global in April 2018, he has been promoting strategic digital transformation, and since becoming responsible for compliance in January 2019, he has taken leadership in carrying out compliance promotion activities. He is familiar with the global competitive environment, changes of consumers and business partners, the expectations from stakeholders surrounding the Kao Group, and the strengths of and tasks facing the Kao Group concerning the same, and in 2020, he led the development of the new Kao Group Mid-Term Plan "K25" based on this knowledge. In January 2021, he was appointed as Representative Director, President and Chief Executive Officer, and is strongly promoting the K25. The Company has determined that Mr. Hasebe will be able to contribute to further enhancing the corporate value of the Kao Group by using his leadership as well as his experience and expertise in the planning and deliberation of management strategies, etc. at the Board of Directors and supervision of execution, and for this reason appoints him as a nominee to continue as a Director.

**3. Toshiaki Takeuchi** (Date of Birth: March 22, 1959) Re-nomination



Attendance to the Meeting  
of the Board of Directors:  
**14/14 (100%)**

Number of the Company  
shares owned:  
**26,900 shares**

Term of office at the  
conclusion of this AGM:  
**7 years**

**[Career summary, status and duties at the Company]**

April 1981	Joined the Company
June 2012	Executive Officer
March 2014	Representative Director, Managing Executive Officer
January 2016	Representative Director, Senior Managing Executive Officer (current); Representative Director, President, Kao Group Customer Marketing Co., Ltd. (current)

**[Other material position(s) held]**

Representative Director, President, Kao Group Customer Marketing Co., Ltd.

**[Reason for appointment as a nominee for Director]**

Over many years, Mr. Takeuchi has been involved in sales operations for delivering to consumers the products produced based on the “Yoki-Monozukuri”<sup>\*</sup> philosophy, and is therefore well acquainted with the actual sites of sales, including distribution and retail businesses operating on a global basis. Based on his considerable expertise in relation to both domestic and overseas sales business, he serves as Representative Director and President of Kao Group Customer Marketing Co., Ltd. which controls the sales, beauty counseling and merchandising functions of consumer products, while responding to changes in the distribution environment such as the emergence of e-commerce. He is familiar with the global competitive environment, changes of consumers and business partners, the expectations from stakeholders surrounding the Kao Group, and the strengths of and tasks facing the Kao Group concerning the same, and has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Kao Group, based on his considerable experience and expertise. The Company has determined that Mr. Takeuchi will be able to contribute to further enhancing the corporate value of the Kao Group by using his experience and expertise in the planning and deliberation of management strategies, etc. at the Board of Directors and supervision of execution, and for this reason appoints him as a nominee to continue as a Director.

*<sup>\*</sup>The Kao Group defines Yoki-Monozukuri as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, Yoki literally means “good/excellent,” and Monozukuri means “development/manufacturing of products.”*

**4. Tomoharu Matsuda** (Date of Birth: November 15, 1959) Re-nomination



Attendance to the Meeting  
of the Board of Directors:  
**14/14 (100%)**

Number of the Company  
shares owned:  
**11,100 shares**

Term of office at the  
conclusion of this AGM:  
**2 years**

**[Career summary, status and duties at the Company]**

April 1983	Joined the Company
January 2008	President, Kao (Hong Kong) Ltd.
March 2010	Chairman of the Board and President, Kao (Taiwan) Corporation
March 2014	Executive Officer
January 2018	Managing Executive Officer; Senior Vice President, Consumer Products, Global
March 2019	Director, Managing Executive Officer (current); President, Consumer Products, Global (current); Responsible for Kao Professional Services Co., Ltd. (current)

**[Reason for appointment as a nominee for Director]**

Over many years, Mr. Matsuda has been involved in product development, namely, the core function of *Yoki-Monozukuri*, and also in the marketing activities for communicating the essential value of such products to consumers. He also has experience in management of the Company's overseas subsidiaries. He carries out his duties as President, Consumer Products, Global, based on his high level of expertise in such business both in Japan and overseas, and is familiar with matters such as global competitive environment, changes in consumers and business partners, expectations from stakeholders surrounding the Kao Group, and the strengths and tasks for the Kao Group. He has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Kao Group, based on his considerable experience and expertise. The Company has determined that Mr. Matsuda will be able to contribute to further enhancing the corporate value of the Kao Group by using his experience and expertise in the planning and deliberation of management strategies, etc. at the Board of Directors and supervision of execution, and for this reason appoints him as a nominee to continue as a Director.

**5. Sonosuke Kadonaga** (Date of Birth: August 5, 1952)

Re-nomination

Outside Director

Independent  
Director



**[Career summary, status and duties at the Company]**

April	1976	Joined Chiyoda Corporation
June	1981	Master of Science in Chemical Engineering, Massachusetts Institute of Technology, School of Engineering, U.S.A.
August	1986	Joined McKinsey & Company, Inc., Japan
July	2009	President, Intrinsic (current)
June	2012	Director, the Company (current)

**[Other material position(s) held]**

President, Intrinsic; Member of the Board, Business Breakthrough Inc.; Outside Director, Chairperson of the Audit & Supervisory Committee, Sumitomo Mitsui Banking Corporation; Vice President, Business Breakthrough University

Attendance to the Meeting of the Board of Directors:  
**14/14 (100%)**

Number of the Company shares owned:  
**13,000 shares**

Term of office at the conclusion of this AGM:  
**8 years and 9 months**

**[Reason for appointment as a nominee for Outside Director]**

Mr. Kadonaga has expertise in relation to international corporate management gleaned from his considerable experience at a foreign-affiliated consulting company. In addition, as a measure to enhance the neutrality and independence of the Board of Directors, Mr. Kadonaga, as an Independent Outside Director, has chaired the meetings of the Board of Directors since March 2014, and has thereby contributed to enabling active discussions at such meetings without any distinction between Inside/Outside Directors. In view of these facts, the Company has determined that it would be most suitable if Mr. Kadonaga were to continue to supervise the management of the Kao Group as an Independent Outside Director, and for this reason appoints him as a nominee to continue as an Outside Director.

**[Matters regarding independency]**

The Company has reported to the Tokyo Stock Exchange, Inc. that Mr. Kadonaga is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc. The Company will continue the above report if he is reelected and assumes office as a Director.



**6. Osamu Shinobe** (Date of Birth: November 11, 1952)

Re-nomination

Outside Director

Independent  
Director



Attendance to the Meeting  
of the Board of Directors:  
**14/14 (100%)**

Number of the Company  
shares owned:  
**700 shares**

Term of office at the  
conclusion of this AGM:  
**3 years**

**[Career summary, status and duties at the Company]**

April 1976	Joined ALL NIPPON AIRWAYS CO., LTD. (currently, ANA HOLDINGS INC.)
June 2007	Member of the Board, ALL NIPPON AIRWAYS CO., LTD.
April 2009	Executive Vice President (jomu torishimariyaku), ALL NIPPON AIRWAYS CO., LTD.
June 2011	Executive Vice President (senmu torishimariyaku), ALL NIPPON AIRWAYS CO., LTD.
April 2012	Senior Executive Vice President, ALL NIPPON AIRWAYS CO., LTD.
April 2013	Member of the Board, ANA HOLDINGS INC. President and Chief Executive Officer, ALL NIPPON AIRWAYS CO., LTD.
April 2017	Member of the Board, Vice Chairman, ANA HOLDINGS INC.
March 2018	Director, the Company (current)
April 2019	Special Advisor, ANA HOLDINGS INC. (current)

**[Other material position(s) held]**

Special Advisor, ANA HOLDINGS INC.

**[Reason for appointment as a nominee for Outside Director]**

Mr. Shinobe has considerable experience and expertise in relation to global corporate management and risk management, gleaned principally from his time in the maintenance sections where safety and security took top priority at an airline company which actively promotes passenger and cargo businesses around the world, that enable appropriate responses to changes in business environment. He has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Kao Group, based on his considerable experience and expertise. In view of these facts, the Company has determined that it would be most suitable if Mr. Shinobe were to continue to supervise the management of the Kao Group as an Independent Outside Director, and for this reason appoints him as a nominee to continue as an Outside Director.

**[Matters regarding independency]**

The Company has reported to the Tokyo Stock Exchange, Inc. that Mr. Shinobe is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc. The Company will continue the above report if he is reelected and assumes office as a Director.

He previously had executive authority at ALL NIPPON AIRWAYS CO., LTD., but ceased to have such authority from April 2017. ALL NIPPON AIRWAYS CO., LTD. provides public transportation services as an airline company, and the Company engages in regular transactions with ALL NIPPON AIRWAYS CO., LTD. in terms of the directors, officers and employees of the Company using its services as a means of transportation in making business trips. However, the amounts involved in such transactions account for less than 0.1% of the ALL NIPPON AIRWAYS CO., LTD.'s net sales and the Company's net sales for the latest fiscal year, respectively. Also, although there are transactions related to membership fees for training programs organized by the Company, the amounts involved in such transactions account for less than 0.1% of the ALL NIPPON AIRWAYS CO., LTD.'s net sales and the Company's net sales for the latest fiscal year, respectively.

7. **Chiaki Mukai** (Date of Birth: May 6, 1952)

Re-nomination

Outside Director

Independent  
Director



Attendance to the Meeting  
of the Board of Directors:  
**14/14 (100%)**

Number of the Company  
shares owned:  
**1,600 shares**

Term of office at the  
conclusion of this AGM:  
**2 years**

**[Career summary, status and duties at the Company]**

April	1977	Staff, Department of Surgery, Keio University School of Medicine
August	1985	Payload Specialist, the National Space Development Agency of Japan (currently, the Japan Aerospace Exploration Agency; JAXA)
June	1987	Visiting Scientist, Division of Cardiovascular Physiology, Space Biomedical Research Institute, NASA Johnson Space Center
September	1992	Research Instructor of the Department of Surgery, Baylor College of Medicine
April	2000	Visiting Professor of the Department of Surgery, Keio University School of Medicine (current)
April	2015	Vice president, Tokyo University of Science; Senior Technical Advisor, JAXA
January	2016	Corporate Executive Fellow, the Company
April	2016	Specially Appointed Vice President, Tokyo University of Science (current)
March	2019	Director, the Company (current)

**[Other material position(s) held]**

Specially Appointed Vice President, Tokyo University of Science; Astronaut; Medical Doctor; M.D., Ph.D.; Outside Director, Fujitsu Limited

**[Reason for appointment as a nominee for Outside Director]**

Ms. Mukai has an extensive and high level of expertise in the scientific field, gleaned through her experience as an astronaut and medical doctor. Since January 2016 to March 2019, she served as a Corporate Executive Fellow of the Company and actively gave advice principally in respect of the Kao Group's R&D activities. Based on such experience and expertise, including her insights from a female perspective, she has been actively presenting opinions and proposals in deliberations at the Board of Directors concerning material matters in the management of the Kao Group. Although she has never been directly involved in company management other than through her experience as an outside director, the Company has determined that it would be most suitable if Ms. Mukai were to continue to supervise the management of the Kao Group as an Independent Outside Director, and for this reason appoints her as a nominee to continue as an Outside Director.

**[Matters regarding independency]**

The Company has reported to the Tokyo Stock Exchange, Inc. that Ms. Mukai is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc. The Company will continue the above report if she is reelected and assumes office as a Director.

She previously had executive authority at Tokyo University of Science, but ceased to have such authority from April 2016. In addition, although the Company makes donations to Tokyo University of Science, the amounts of such donations account for less than 0.1% of the university's income from educational activities for the latest fiscal year. Also, although the Company has transactions with the Tokyo University of Science related to participation in seminars hosted by the university, the amounts of such transactions account for less than 0.1% of the university's income from education activities and the Company's net sales for the latest fiscal year, respectively.

**8. Nobuhide Hayashi** (Date of Birth: March 27, 1957)

Re-nomination

Outside Director

Independent  
Director



Attendance to the Meeting  
of the Board of Directors:  
**14/14 (100%)**

Number of the Company  
shares owned:  
**400 shares**

Term of office at the  
conclusion of this AGM:  
**2 years**

**[Career summary, status and duties at the Company]**

April 1980	Joined The Fuji Bank, Limited
April 2007	Executive Officer – Corporate Banking Division #13, Mizuho Corporate Bank, Ltd.
April 2009	Managing Executive Officer – Japanese Business Promotion, Mizuho Corporate Bank, Ltd.
June 2011	Managing Director and Head of International Banking Unit, Mizuho Corporate Bank, Ltd.
April 2013	Deputy President & Deputy President Executive Officer, Mizuho Financial Group Inc.;
	Deputy President & Deputy President Executive Officer, Mizuho Bank, Ltd.;
	Representative Director, Deputy President, Mizuho Corporate Bank, Ltd.
June 2013	Director, Deputy President, Mizuho Financial Group Inc.
July 2013	Representative Director, Deputy President, Mizuho Bank, Ltd.
April 2014	Representative Director, President and CEO, Mizuho Bank, Ltd.
April 2017	Director, Chairman, Mizuho Bank, Ltd.
March 2019	Director, the Company (current)
April 2019	Senior Advisor, Mizuho Bank, Ltd. (current)

**[Other material position(s) held]**

Senior Advisor, Mizuho Bank, Ltd.; Outside Director, Baroque Japan Limited; Outside Audit & Supervisory Board Member, JTB Corp.; Outside Audit & Supervisory Board Member, TOBU RAILWAY CO., LTD.

**[Reason for appointment as a nominee for Outside Director]**

Over many years, Mr. Hayashi has played an active role on an international basis in the fields of finance and financial affairs, such as by experiencing an extensive range of duties in sales, international business planning, etc. at leading financial institutions. He has an abundance of experience and a high level of expertise in company management, such as having served as a corporate manager amidst global changes in the business environment surrounding the financial industry. He has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Kao Group, based on his considerable experience and expertise. In view of these facts, the Company has determined that it would be most suitable if Mr. Hayashi were to continue to supervise the management of the Kao Group as an Independent Outside Director, and for this reason appoints him as a nominee for Outside Director.

**[Matters regarding independency]**

The Company has reported to the Tokyo Stock Exchange, Inc. that Mr. Hayashi is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc. The Company will continue the above report if he is reelected and assumes office as a Director.

He previously had executive authority at Mizuho Bank, Ltd., but ceased to have such authority from April 2017. The Company conducts regular bank transactions with Mizuho Bank, Ltd., and receives consulting service in overseas markets, however, the amounts involved in such transactions account for less than 0.1% of Mizuho Bank, Ltd.'s ordinary income and the Company's net sales for the latest fiscal year, respectively.

**[Special notes concerning nominees for Directors]**

■ **Special relationship between the Company and the nominees for Directors**

There are no special interests between the Company and the nominees for Directors.

■ **Matters regarding the nominees for Outside Directors**

Of the nominees for Directors, Mr. Sonosuke Kadonaga, Mr. Osamu Shinobe, Ms. Chiaki Mukai and Mr. Nobuhide Hayashi are nominees for Outside Directors.

■ **Summary of liability limitation agreements**

Pursuant to Article 427, Paragraph 1 of the Companies Act and the Articles of Incorporation of the Company, the Company entered into an agreement with Mr. Sonosuke Kadonaga, Mr. Osamu Shinobe, Ms. Chiaki Mukai and Mr. Nobuhide Hayashi, respectively, to the effect that each of their liability under Article 423, Paragraph 1 of the Companies Act will be limited to the higher of: 10 million yen; or any amount prescribed by applicable laws and regulations. If they are reelected and assume office, the Company will continue these agreements with them.

■ **Summary of directors and officers liability insurance in which nominees for Directors are the insured**

The Company has entered into a directors and officers liability insurance agreement with an insurance company, and the agreement is designed to cover damages that may be incurred by the insured as a result of assuming responsibility for the execution of their duties or receiving claims related to the pursuit of such responsibility. All nominees for Directors will be included as insureds under this insurance agreement. The Company also plans to renew this agreement with the same content at the time of the next renewal.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL 2.**

**PROPOSAL 3: ELECTION OF TWO (2) AUDIT & SUPERVISORY BOARD MEMBERS**

Of the five (5) incumbent Audit & Supervisory Board Members, the term of office of Mr. Katsuya Fujii and Mr. Hideki Amano will expire at the conclusion of the AGM. Accordingly, the Company proposes that two (2) Audit & Supervisory Board Members, including one (1) Outside Audit & Supervisory Board Member, be elected.

The Audit & Supervisory Board has approved the submission of this proposal to the AGM. Provided below is the relevant personal information and career summary held by the nominees.

**1. Sadanao Kawashima** (Date of Birth: May 22, 1959) New Nominee



**[Career summary]**

- April 1983      Joined the Company
- March 2007    Audit & Supervisory Board Member, Kanebo Cosmetics Inc.
- June 2011     Vice President, Corporate Strategy-Investor Relations, Global
- September 2015    Vice President, Internal Audit, Global
- March 2019     Director, Corporate Strategy-Office of the Audit & Supervisory Board (current)

**[Reason for appointment as a nominee for Audit & Supervisory Board Member]**

Mr. Kawashima has considerable expertise in finance and accounting, having worked in accounting and finance for many years and held key positions in Investor Relations and Internal Audit. In addition, he has a wealth of experience in group management, including being stationed at overseas subsidiaries and serving as an Auditor of affiliated company. Furthermore, he has contributed to enhancing the effectiveness of audits by Audit & Supervisory Board Member as an Audit & Supervisory Board staff member since March 2019. The Company has determined that Mr. Kawashima will be able to make full use of his experience and expertise in the auditing of the Kao Group, and for this reason appoints him as a nominee for Audit & Supervisory Board Member.

Number of the Company shares owned:  
**0 shares**

Outside Audit &  
Supervisory  
Board Member

Independent Audit &  
Supervisory Board  
Member

**2. Hideki Amano** (Date of Birth: November 26, 1953) **Re-nomination**



**[Career summary and status at the Company]**

April 1976	Joined Arthur Andersen LLP
September 1980	Registered as Certified Public Accountant
June 1984	Resided in Dusseldorf Office of Arthur Andersen
September 1992	Representative employee, Inoue Saito Eiwa Audit Corporation
September 2011	Vice President (Audit Management), KPMG AZSA LLC; member, KPMG Global Audit Steering Group
July 2015	Executive Senior Partner, KPMG AZSA LLC
March 2017	Audit & Supervisory Board Member, the Company (current)

Attendance to the Meeting of the Board of Directors: **14/14 (100%)**

Attendance to the Meeting of the Audit & Supervisory Board: **8/8 (100%)**

Number of the Company shares owned: **4,000 shares**

Term of office at the conclusion of this AGM: **4 years**

**[Other material position(s) held]**

Certified Public Accountant  
Outside Director, TOPPAN FORMS CO., LTD.  
Outside Audit & Supervisory Board Member, Ajinomoto Co., Inc.  
Outside Audit & Supervisory Board Member, Seiko Holdings Corporation

**[Reason for appointment as a nominee for Outside Audit & Supervisory Board Member]**

Mr. Amano has a high level of professional expertise as a certified public accountant. Based on his experience and insight gained from working globally at major auditing firm as a member of management, he has served as an Audit & Supervisory Board Member of the Company since March 2017, effectively auditing the Kao Group, which operates globally, from a professional perspective. In view of these facts, the Company has determined that it would be most suitable if Mr. Amano were to continue to audit the Kao Group as an Independent Outside Audit & Supervisory Board Member, and for this reason appoints him as a nominee to continue as an Outside Audit & Supervisory Board Member. Although he has never been directly involved in company management, the Company considers, based on the above reasons, that Mr. Amano will properly perform his duties as an Outside Audit & Supervisory Board Member.

**[Matters regarding independency]**

The Company has reported to the Tokyo Stock Exchange, Inc. that Mr. Amano is an Independent Audit & Supervisory Board Member as set forth in the Regulations of the Tokyo Stock Exchange, Inc. The Company will continue the above report if he is reelected and assumes office as an Audit & Supervisory Board Member.

**[Special notes concerning nominees for Audit & Supervisory Board Members]**

■ **Special relationship between the Company and the nominees for Audit & Supervisory Board Members**

There are no special interests between the Company and the nominees for Audit & Supervisory Board Members.

■ **Matters regarding the nominee for Outside Audit & Supervisory Board Member**

Of the nominees for Audit & Supervisory Board Members, Mr. Hideki Amano is a nominee for Outside Audit & Supervisory Board Member.

■ **Summary of liability limitation agreements**

Pursuant to Article 427, Paragraph 1 of the Companies Act and the Articles of Incorporation of the Company, the Company entered into an agreement with Mr. Hideki Amano to the effect that his liability under Article 423, Paragraph 1 of the Companies Act will be limited to the higher of: 10 million yen; or any amount prescribed by applicable laws and regulations. If he is reelected and assumes office, the Company will continue this agreement with him. If Mr. Sadanao Kawashima is elected and assumes office as an Audit & Supervisory Board Member, the Company and Mr. Sadanao Kawashima will enter into an agreement under the same terms and conditions.

■ **Summary of directors and officers liability insurance in which nominees for Audit & Supervisory Board Members are the insured**

The Company has entered into a directors and officers liability insurance agreement with an insurance company, and the agreement is designed to cover damages that may be incurred by the insured as a result of assuming responsibility for the execution of their duties or receiving claims related to the pursuit of such responsibility. All nominees for Audit & Supervisory Board Members will be included as insureds under this insurance agreement. The Company also plans to renew this agreement with the same content at the time of the next renewal.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL 3.**

(For Reference)

### **Policy on Nomination of Directors and Audit & Supervisory Board Members Candidates**

The Directors and Audit & Supervisory Board Members who attend the Board of Directors meetings deliberate on the appropriateness of the business strategies, the risks related to their realization and other matters in an objective and multifaceted fashion. They also supervise and audit the status of execution. To conduct these tasks, the Company considers it important those parties from inside and outside the Company with a greater diversity of experience, knowledge, expertise and insight conduct examinations through joint contributions of opinions from various perspectives. Consequently, the Company nominates the appropriate Directors and Audit & Supervisory Board Members to realize this objective.

In addition, to promote sharing of the knowledge and information obtained related to the Company's management and businesses from predecessor to successor, the Company sets staggered terms of office for Outside Directors and Outside Audit & Supervisory Board Members.

### **Stance on Balance among Knowledge, Experience and Skills, and on Diversity and Size of the Board of Directors**

In accordance with the above policy on nomination, the Company ensures diversity and a balance among the knowledge, experience and skills of the Board of Directors as a whole as follows. In addition, the Company sets the appropriate size of the Board of Directors in consideration of the simplification of the Board of Directors to accelerate decision-making for dealing with business expansion and other matters, and the balance of diverse personnel required to conduct the proper deliberations and supervision of execution, premised on the delegation of responsibility to appropriately placed Executive Officers.

Inside Directors are nominated with emphasis on their experience of the operation, including global operation, of R&D, marketing, sales, production and other divisions related to *Yoki-Monozukuri* and the operation of divisions related to corporate functions that support these divisions, as well as their understanding of the business environment in which the Company operates and the Company's strengths and issues for dealing with it, necessary for the appropriate planning and deliberation of business strategies.

Outside Directors are nominated with emphasis on diverse experience, their knowledge and high level of insight obtained from such experience that cannot be obtained from Inside Directors alone in deliberations on business strategies, together with consideration for their independence. Examples include experience, including global experience, managing a company that provides products and services in a different field from the Company, and consulting or academic experience. In addition, the Company aims to have Outside Directors comprise approximately half of the Board of Directors to ensure its diversity and influence.

Full-time Audit & Supervisory Board Members are nominated with emphasis on the balance of business experience of each person to date and the knowledge gained therefrom, experience working overseas, and qualities that can ensure independence from persons executing business. The nominees are selected from inside the Company from persons involved in corporate management of accounting and finance, operation of business, the supply chain from R&D to production and sales and persons with overseas and other business experience.

Outside Audit & Supervisory Board Members are nominated with emphasis on factors necessary for auditing, including a high level of expertise, insight and abundance of experience relating to accounting and finance and laws and their high level of ethics as professionals, as well as by considering the legal and regulatory requirement for externality and independence. In addition, to increase the independence and neutrality of the Audit & Supervisory Board, a majority are Outside Audit & Supervisory Board Members who meet the Standards for Independence. When nominating Audit & Supervisory Board Members, the Company emphasizes experience, disposition, expertise and other characteristics necessary for deliberation, etc. of the business strategies.

Moreover, the Company recognizes that, in addition to knowledge, experience and ability, the diverse perspectives of people of various genders, races and nationalities and others contribute to the promotion of business, global expansion and proper supervision and auditing, and promotes the appointment of such diverse personnel as Directors, Audit & Supervisory Board Members and Executive Officers.

### **Procedures for the Nomination of Director and Audit & Supervisory Board Member Candidates**

To objectively confirm that all Director candidates, including candidates for President and CEO, conform with the policy and stance in paragraph above, the Company has a Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members, composed exclusively of all Outside Directors and Outside Audit & Supervisory Board Members. Prior to the election or re-election of Directors and Audit & Supervisory Board Members, first the Committee deliberates about validity of above policies and other related matters. Then, it deliberates on each candidate's eligibility and submits its opinions of the nominees' appropriateness to a meeting of the Board of Directors.

With regard to nominees for Audit & Supervisory Board Members, in addition to the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members, the Audit & Supervisory Board, which includes three Independent Outside Audit & Supervisory Board Members as its members,



deliberates the appropriateness and qualifications, etc. of each nominee, based on its independent and objective perspective and in accordance with the above-described policy and the policy of nominating nominees for Audit & Supervisory Board Members established by the Audit & Supervisory Board. Finally, with the consent of the Audit & Supervisory Board, the Board of Directors determines such nominees as the nominees for Audit & Supervisory Board Members to be presented in a proposal for the General Meeting of Shareholders.

(For Reference)

**Summary of “Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation”**

1. In order for the board of directors of Kao Corporation (the “Company”) to determine an outside director or outside Audit & Supervisory Board Member of the Company (collectively, the “outside director/ Audit & Supervisory Board Member”) qualifies as independent, the relevant outside director/Audit & Supervisory Board Member must be neutral and independent from the management of the Company and must not be described by any of the following items (an outside director/Audit & Supervisory Board Member who is qualified as independent is hereinafter referred to as an “independent director/Audit & Supervisory Board Member”):
  - (a) A person executing the operations (“executing person”) of the Company or its affiliate companies (collectively, the “Kao Group”);
  - (b) A party for whom the Kao Group is a principal business partner or an executing person of such party;
  - (c) A principal business partner of the Kao Group or an executing person of such party;
  - (d) A large shareholder of the Company (a party which directly or indirectly holds 10% or more of the total voting rights of the Company) or an executing person of such party;
  - (e) An executing person of a party in which the Kao Group is a large investor (a party, 10% or more of whose voting rights are directly or indirectly held by the Kao Group);
  - (f) A party which has received a significant amount of donation from the Kao Group or an executing person of such party;
  - (g) A consultant, an accounting professional such as a certified public accountant or a legal professional such as an attorney-at-law who has received a significant amount of money or other property from the Kao Group, other than as compensation for being a director and/or an Audit & Supervisory Board Member (if the party having received such property is a corporation, partnership or any other entity, this item refers to a person belonging to the relevant entity);
  - (h) A person belonging to the auditing firm engaged to conduct the statutory audit of the Company;
  - (i) In the case where any executing person of the Kao Group currently serves, or served within the past three (3) years, as an outside director/Audit & Supervisory Board Member of any other company, an executing person of such other company;
  - (j) Any person who was described by any of the items (a) to (i) above in the past three (3) years; and
  - (k) An immediate family member, etc. of any of the persons listed below:
    - a. Any person described in items (b) through (i) above; provided, however, that an “executing person” in items (b) through (f) is limited to key executing persons ; a “person belonging to the relevant entity” in item (g) is limited to key executing persons, and if the relevant entity is an auditing firm, a law firm or any other professional entity, such person is limited to persons with professional qualifications such as certified public accountants, attorneys-at-law; a “person belonging to the auditing firm” in item (h) is limited to key executing persons and other persons with professional qualifications such as certified public accountants; and “an executing person of such other company” in item (i) is limited to key executing persons of such other company;
    - b. A key executing person of the Kao Group; and
    - c. Any person who was described by item b. above in the past three (3) years.
2. In addition to the requirements set forth in the preceding Article there must not be any circumstances that are reasonably deemed to prevent an independent director/Audit & Supervisory Board Member from performing his or her duties as an independent director/Audit & Supervisory Board Member.
3. An independent director/Audit & Supervisory Board Member must make efforts to maintain independence as set forth in these Standards until retirement or resignation from his or her position. If an independent director/Audit & Supervisory Board Member loses his or her independence as set forth in these Standards, he or she shall notify the Company immediately.

For further information please see the following website:

[www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance\\_002.pdf](http://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance_002.pdf)

## PROPOSAL 4: PARTIAL REVISION OF THE AMOUNT AND OTHER TERMS AND CONDITIONS OF PERFORMANCE SHARES, ETC. FOR DIRECTORS, ETC.

### 1. Reason for the Proposal and Reason Justifying such Compensation, etc.

The Company obtained shareholders' approval at the 111th Annual General Meeting of Shareholders held on March 21, 2017 for the performance share plan ("Plan") under which Company shares and cash in the amount equivalent to the converted value of Company shares ("Company Shares, etc.") are vested or paid ("vested, etc.") to Directors (excluding Outside Directors) and Executive Officers of the Company (hereinafter collectively referred to as "Directors, etc.") depending on the level of achievement of performance targets in the mid-term plan, etc.

The Company has formulated the Kao Group Mid-term Plan 2025 "K25" covering five fiscal years from fiscal year 2021 to 2025, with the basic policy to (i) become an essential company in a sustainable world, (ii) transform to build robust business through investment, and (iii) maximize the power and potential of employees. By achieving these objectives, Kao Group aim to be an essential company in the future world by not only contributing to an "enriched sustainable world" but also growing the businesses of the Company itself through proactive engagement in ESG activities and investment.

This Proposal is considered to be appropriate as it seeks to revise the Plan primarily for the purpose of further promoting the priority initiatives set forth in Mid-term Plan 2025 "K25" by Directors, etc. in order to realize such a vision pursued by the Company, and evaluating the outcome of challenges such as medium/long-term initiatives and activities by Directors, etc. in a comprehensive and multifaceted manner and reflecting such evaluation in the compensation of Directors, etc.

Of note, the Company has established a Compensation Advisory Committee, which is chaired by an Independent Outside Director, and in which the majority of the members are Independent Outside Directors and Audit & Supervisory Board Members, to ensure the transparency and objectivity of the determination process regarding compensation for Directors and Executive Officers. The partial revision of the Plan has been reviewed at the Compensation Advisory Committee.

This Proposal is to vest, etc. Company Shares etc. to Directors, etc. separately and in addition to the maximum amount of compensation for Directors that had been approved at the 101st Annual General Meeting of Shareholders held on June 28, 2007 (630 million yen including bonuses for Directors (excluding the amount of salary, etc. received by Directors who serve concurrently as employees for their service as employees)).

The number of Directors (excluding Outside Directors) covered by the Plan will be four at the close of this Annual General Meeting of Shareholders provided that Proposal No. 2 "Election of Eight Directors" is approved as proposed. As stated above, the Plan also covers Executive Officers (the number of Executive Officers not concurrently serving as Directors who are covered by the Plan will be 24 provided that Proposal No. 2 is approved as proposed) and compensation based on the Plan includes compensation for Executive Officers. In consideration of the possibility that one or more of these Executive Officers will newly assume the office of Director during the covered period of the Trust (as defined in 2.(2) below), the Company proposes the amount and other terms and conditions of compensation based on the Plan as a whole in the form of compensation, etc. for Directors, etc. in this Proposal.

### 2. Amount and Other Terms and Conditions, etc. of Compensation, etc. under the Plan after Revision

#### (1) Outline of the Plan (main parts subject to revision are underlined)

The Plan is a performance share plan under which Company shares are acquired through a trust using money contributed by the Company and Company Shares, etc. are vested, etc. to Directors, etc. through the trust.

(i) Persons eligible to be vested, etc. with Company Shares, etc. subject to this Proposal	<ul style="list-style-type: none"> <li>Directors, etc. of the Company (Directors (excluding Outside Directors) and Executive Officers)</li> </ul>
(ii) Upper limit of money to be contributed by the Company (as stated in (2) below)	<ul style="list-style-type: none"> <li>730 million yen per fiscal year</li> <li>3,650 million yen for the five fiscal years concerning the covered period after the revision of the Plan that commences in this fiscal year ("Covered Period")</li> </ul>
(iii) Maximum number of Company shares to be vested, etc. to Directors, etc. and acquisition method of Company shares (as stated in (2) and (3) below)	<ul style="list-style-type: none"> <li>92,000 points per fiscal year (equivalent to 92,000 shares)</li> <li>460,000 points with respect to the five fiscal years concerning the Covered Period (equivalent to 460,000 shares)</li> <li>The percentage of the number of shares equivalent to the maximum number of points per fiscal year with respect to the total number of issued shares (as of December 31, 2020; after deducting treasury shares) is approximately 0.019%.</li> <li>As Company shares are slated to be acquired from the stock market, there will be no dilution.</li> </ul>

(iv) Conditions of achievement (as stated in (3) below)	<ul style="list-style-type: none"> <li>• The variation coefficient varies between 0% and 200% depending on the outcome of initiatives/activities promoted in the mid-term plan, etc.</li> <li>• Indicators for the evaluation of the outcome of initiatives/activities by Directors, etc. during the Covered Period, etc. consist of evaluation indicator of growth capability (e.g., extent of growth of sales/profit, etc. of business as a whole), evaluation indicator of ESG capability (e.g., evaluation based on external indicator) and evaluation indicator of management capability (e.g., Company employees' evaluation of management activities).</li> </ul>	
(v) Timing at which Company Shares, etc. are vested, etc. (as stated in (4) below)	Variable portion (accounting for 70%)	After resignation of each Director, etc.
	Fixed portion (accounting for 30%)	After the end of each fiscal year during the covered period. However, Directors, etc., shall continue to hold Company shares acquired as the fixed portion until the end of the covered period.

## (2) Upper Limit of Money to be Contributed by the Company

The Plan shall cover the fiscal years corresponding to the period of the mid-term plan set forth by the Company ("covered period"). The initial covered period after the revision of the Plan shall be five fiscal years from the fiscal year ending December 31, 2021 to the fiscal year ending December 31, 2025, and in cases where the trust term has been extended, the fiscal years corresponding to the period of the mid-term plan set forth by the Company at that time shall be the covered period.

In each covered period, the Company will contribute money up to the amount equivalent to the amount calculated by multiplying the upper limit of the amount of trust money per fiscal year (i.e., 730 million yen) by the number of years in the trust term (for the initial covered period after the revision of the Plan, 3,650 million yen with respect to five fiscal years) as compensation, etc. for Directors, etc. and extend the trust whose term corresponds to the covered period, with beneficiaries being Directors, etc. who meet the requirements for beneficiaries ("Trust").

The Trust will acquire Company shares from the stock market using the entrusted money in accordance with the directions of the trust administrator. The Company will grant points (as stated in (3) below) to Directors, etc. each year during the covered period, and Company Shares, etc. equivalent to the number of points granted over a certain period determined in advance (as stated in (4) below) will be vested, etc. from the Trust.

Of note, in cases where the Trust is continued by modifying the trust agreement and entrusting additional money at the expiration of the term of the Trust, the Company will, for each extended trust term, make additional contributions within the amount equivalent to the amount calculated by multiplying the upper limit of the amount of trust money per fiscal year by the number of years in the trust term, and during the extended trust term, continue granting points to Directors, etc., and the Trust will continue the vesting, etc. of Company Shares, etc. during the extended trust term.

In cases where additional contributions are to be made in association with the extension of the trust term including the Covered Period, when there are any Company shares (excluding Company shares equivalent to points granted to Directors, etc. that are yet to be vested, etc.) and money remaining in the trust property (such remaining Company shares and money shall hereinafter be collectively referred to as "Residual Shares, etc.") as at the last day of the trust term prior to the extension, the sum of the amount of Residual Shares, etc. and the amount of additional money to be contributed shall be within the amount calculated by multiplying the upper limit of the amount of trust money per fiscal year by the number of years in the trust term.

In cases where modification of the trust agreement and entrustment of additional money are not performed at the expiry of the term of the Trust, no points will be granted to Directors, etc. thereafter; however, in cases where a Director, etc. who might meet the requirements for beneficiaries at that point in time holds office, the term of the Trust may be extended by up to ten years until his/her resignation and the completion of the vesting, etc. of Company Shares, etc. to him/her.

## (3) Calculation Method and Maximum Number of Company Shares to be Vested, etc. to Directors, etc. (Including Company Shares Subject to Conversion into Cash)

Points prescribed in (i) and (ii) below will be granted to Directors, etc. as a precondition for the vesting, etc. of Company Shares, etc. One point shall be equivalent to one Company share, and fractions less than one point will

be disregarded; however, in cases where share split, consolidation of shares, etc. has been conducted during the trust term with respect to Company shares, the number of Company shares per point will be adjusted according to the share split ratio, share consolidation ratio, etc. of Company shares.

(i) Variable portion

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

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

(Calculation formula of number of variable points)

Cumulative total of single fiscal-year points during the covered period x Variation coefficient\*1\*2\*3

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

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

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

(ii) Fixed portion

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

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

The total number of points to be granted to Directors, etc. shall be capped at 92,000 points per fiscal year. Such maximum total number of points is set by using share price at the present time and other such factors as reference, in consideration of the aforementioned upper limit of the amount of trust money. The number of Company shares to be acquired by the Trust in the five-fiscal-year Covered Period ("Number of Shares to be Acquired") shall be capped at the number of shares equivalent to the number calculated by multiplying the maximum total number of points per fiscal year by five, i.e., the number of years in the covered period (i.e., 460,000 shares).

Of note, the Number of Shares to be Acquired in the case of the continuation of the Trust will be capped at the number of shares equivalent to the number calculated by multiplying the maximum total number of points per fiscal year by the number of years in the covered period.

(4) Method and Timing of Vesting, etc. of Company Shares, etc. to Directors, etc.

(i) Variable portion

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

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

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

(ii) Fixed portion

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

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

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

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

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

(5) Treatment of Dividends of Company Shares within the Trust

Dividends paid with respect to Company shares within the Trust will, after being received by the Trust, not only be allocated to pay for trust fees and trust expenses of the Trust, but also be reserved in the amount equivalent to the per-share dividend amount per point according to the number of points calculated by multiplying the cumulative total of single fiscal-year points of Directors, etc. as at the dividend record date by the variation coefficient, and paid to Directors, etc. together with Company Shares, etc. that are vested, etc. according to (4) above.

(6) Exercise of Voting Rights Related to Company Shares within the Trust

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

(7) Other Details of the Plan

Other details of the Plan will be determined by the Board of Directors each time the trust agreement is modified and additional money is contributed to the Trust.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL 4.**

# BUSINESS REPORT

## (From January 1, 2020 to December 31, 2020)

### I. Current Condition of the Kao Group

#### 1. Business Progress and Results

Please review the *Consolidated Financial Results for the Fiscal Year Ended December 31, 2020* at [www.kao.com/global/en/investor-relations/library/results/](http://www.kao.com/global/en/investor-relations/library/results/).

#### 2. Status of Capital Investments

The aggregate amount of capital investments, etc., for this fiscal year was 85.9 billion yen.

In the Consumer Products Business, in addition to conducting the reinforcement, streamlining, maintenance and renewal, etc. of facilities in each business, the Company also developed distribution bases and rebuilt its information systems. In the Skin Care and Hair Care Business and the Fabric and Home Care Business, the reinforcement of both new and improved products and the expansion of production capacity were conducted mainly in Japan. Furthermore, in the Human Health Care Business, the production capacity of sanitary product plants in Japan and overseas were expanded. In the Chemical Business, the expansion of production capacity, streamlining, maintenance and renewal of facilities, rebuilding of information system, etc. were conducted in Japan and overseas.

The aggregate amount of capital investments, etc. shown above includes investments in property, plant and equipment, right-of-use assets, and intangible assets.

#### 3. Financing Status

Kao Corporation (the “Company”) globally and effectively used its group’s capital to cover necessary operating activities and investing activities including capital investments, etc. The Company also issued and redeemed bonds to maintain an appropriate cost of capital ratio and to strengthen its financial base for investment in growth, which consisted of 24.9 billion yen in proceeds from issuance of bonds and 24.9 billion yen in redemption of bonds.

#### 4. Issues for Management

The novel coronavirus (COVID-19) pandemic is spreading widely around the world and environmental issues in areas such as climate change, water and forest resources are becoming more serious. Moreover, the importance of efforts for human rights is growing, and market structure and consumer attitudes are changing considerably together with growing social issues such as Japan’s aging society. In this significantly changing business environment, with doubts about the continuance of the sustainable society itself, the Kao Group considers sustainable corporate growth to be difficult using only its current business model.

Reducing shortages as much as possible and avoiding lost opportunities during consumer purchasing leads to stable business performance, but on the other hand, it is a cause of over-procurement and excess inventory. In addition, an excessive focus on meeting people’s needs for consumption makes a company likely to opt for a wide-ranging lineup with short-term product revisions, discontinuances and other measures, causing some products to be discarded without ever being used. This outcome is a negative factor for environmental conservation.

To lead to a resolution of these issues, we must urgently build a consumption cycle model for achieving a sustainable society. Through *Yoki-Monozukuri* of products that can be regularly used as long as possible, we will establish a new business model that neither makes nor delivers useless items.

Furthermore, we believe that we have not yet established the value of our existence for a sustainable society globally. We must take on new challenges to realize the Kao Group’s Mission “to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world.” We aim to lead the world in offering ESG-driven products and services as we continue to grow centered on these offerings, while also becoming a leading company that contributes to the businesses of numerous other companies.

Achieving this goal will require a unique co-creation platform including new businesses. To that end, we believe that the extensive fundamental research that has supported our product development research will serve as an engine for the Kao Group. In particular, fundamental research into matters such as the properties, variations, transmission, elimination and prevention of things that are harmful to people and the

environment will surely significantly benefit society in the future. Now, as the world faces a crisis, we are determined to focus on helping to resolve compelling social issues.

The Kao Group Mid-term Plan 2025 “K25” is crucial for building the business foundation that will be essential for resolving these issues to become the company we want to be by 2030. The Kao Group will continue to take on the challenge of helping to resolve major issues such as these.

The continued understanding and further support of the shareholders in corporate activities of the Kao Group will be greatly appreciated.

### **Kao Group Mid-term Plan 2025 “K25”**

The five years from 2021 to 2025 are an important period for the Kao Group to establish the foundation for becoming the company it wants to be by 2030. To that end, the Kao Group Mid-term Plan 2025 “K25” establishes a vision of “Sustainability as the only path” and sets forth three objectives.

To become an essential company in a sustainable world, we must actively promote the “Kirei Lifestyle Plan (“KLP”), the new ESG strategy we announced in 2019, and take leadership in a self-sufficient, sustainable society that curtails the generation of waste to the greatest extent possible. Moreover, we will ensure that our investments for KLP are reflected in future earnings.

By transforming to build robust business through investment, we will create “Another Kao.” For people facing compelling problems, we will fully utilize the technologies and expertise we have cultivated as well as our digital transformation (DX) to create new businesses that “save future lives.” At the same time, we will further reinforce our current business, which serves as the foundation of this new business, revitalizing it as “Reborn Kao.”

Furthermore, to achieve these two objectives, the vitality of our employees is indispensable. Therefore, for our third objective—to maximize the power and potential of employees—we will newly implement an Objectives and Key Results (OKR) employee empowerment system in January 2021 so that all employees can give their utmost to achieving the substantial goals they set for themselves. We will also proactively open positions to talent from outside the Kao Group and promote external collaboration.

Achieving these three objectives will enable us to achieve our targets for record-high sales and profits (1.8 trillion yen in net sales, 250 billion yen in operating income and the 36th consecutive fiscal year of increases in cash dividends in 2025), and to make high-level returns, according to the level of our growth, to our many stakeholders, including employees, consumers, customers, business partners and shareholders.

While continuing to practice the “*Integrity\**” set forth in the Kao Way, the Kao Group will achieve these objectives together with like-minded stakeholders, and in so doing create a better tomorrow.

*\*Integrity is one of the values of the Kao Way, the corporate philosophy of the Kao Group.*

- Vision: Sustainability as the only path
- Concept: Kirei—Making Life Beautiful
- Policy (Objectives)

Objective (1) Become an essential company in a sustainable world

Goal: Take leadership in a self-propelling sustainable society (ESG Investment = Reflection of future earnings)

Key Results:

- Carbon recycling (Conversion of carbon dioxide into raw materials)
- Positive recycling (Creation of new business through re-use)
- Stop pandemic (Eradicate the source of infectious diseases)

Objective (2) Transform to build robust business through investment

Goal: Create another Kao and reinforce current Kao (Expand global business by focusing on saving lives)

Key Results:

- New Business: Launch digital and precision healthcare business (high-precision bioanalysis and homeostasis enhancement solution)
- Current Business: Invest in outstanding products development and expand business
- Cosmetics Business, Sanitary Business: Pursue next innovation

Objective (3) Maximize the power and potential of employees

Goal: Double the productivity of our business activities (Make challenges visible and pursue open innovation)

Key Results:

- Fair compensation according to challenge and contribution (implementation of OKR globally)
- Active promotion of talent from outside Kao and doubling the results of collaboration
- Reform to become “digital Kao” to be completed by 2023

## 5. Transitions of Assets and Profits and Losses

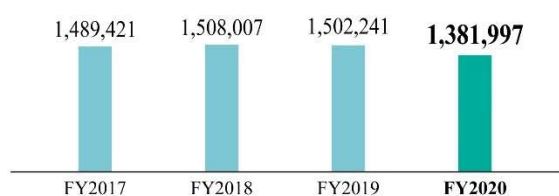
(million yen)

	FY2017	FY2018	FY2019	FY2020
Net sales	1,489,421	1,508,007	1,502,241	1,381,997
Operating income	204,791	207,703	211,723	175,563
Income before income taxes	204,290	207,251	210,645	173,971
Net income	148,607	155,331	150,349	128,067
Net income, attributable to owners of the parent	147,010	153,698	148,213	126,142
Total assets	1,427,375	1,460,986	1,653,919	1,665,616
Total equity	819,364	835,509	871,421	938,194
Basic earnings per share (yen)	298.30	314.25	306.70	262.29

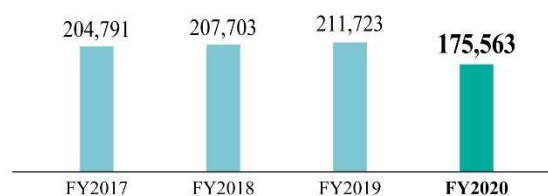
Notes:

1. In the FY2017, the Kao Group adopted IFRS 15, “Revenue from Contracts with Customers” and its amendments early in tandem with a revision of its sales system for the Consumer Products Business in Japan.
2. In the FY2019, the Kao Group adopted IFRS 16, “Leases.”
3. Effective from the FY2020, the Company has changed its method of recognizing sales for some transactions from the gross amount to the net amount.  
In addition, the Kao Group early adopted Amendment to IFRS 16 “Leases,” “Covid-19-Related Rent Concessions.”

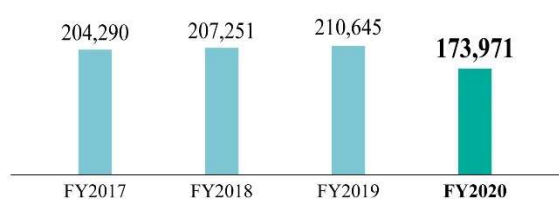
■ Net Sales (million yen)



■ Operating Income (million yen)



■ Income before Income Taxes (million yen)



■ Net Income (million yen)





## 6. Main Businesses of the Kao Group (as of December 31, 2020)

Business Category		Main Products
Consumer Products Business	Cosmetics Business	[Cosmetics] Counseling cosmetics, Self-selection cosmetics
	Skin Care and Hair Care Business	[Skin care products] Soaps, Facial cleansers, Body cleansers
		[Hair care products] Shampoos, Conditioners, Hair styling agents, Hair coloring agents, Men's products
	Human Health Care Business	[Sanitary products] Sanitary napkins, Baby diapers
		[Personal health products] Bath additives, Oral care products, Thermo products
		[Beverage products] Beverages
	Fabric and Home Care Business	[Fabric care products] Laundry detergents, Fabric treatments
		[Home care products] Kitchen cleaning products, House cleaning products, Paper cleaning products, Commercial-use products
Chemical Business	[Oleo chemicals] Fatty alcohols, Fatty amines, Fatty acids, Glycerin, Commercial-use edible fats and oils	
	[Performance chemicals] Surfactants, Plastics additives, Superplasticizers for concrete admixtures, Road additives	
	[Specialty chemicals] Toner and toner binder for copiers and printers, Ink and water-based pigment inkjet ink, Fragrances and aroma chemicals	

## 7. Main Subsidiaries (as of December 31, 2020)

Name of Company	Capital Stock	Ratio of Voting Rights	Main Businesses
Kao Group Customer Marketing Co., Ltd.	JPY 10 million	100%	Control of affiliates in the business of sales of consumer products in Japan and sales of consumer products.
Kanebo Cosmetics Inc.	JPY 7,500 million	100%	Manufacture and sales of cosmetics products
Kao Transport & Logistics Co., Ltd.	JPY 15 million	100%	Transportation and inventory management of consumer products
Kao (China) Holding Co., Ltd.	CNY 2,603,727 thousand	100%	Control of affiliates in the People's Republic of China and sales of cosmetics products
Kao Corporation Shanghai	CNY 564,200 thousand	100%	Manufacture and sales of consumer products
Kao (Hefei) Co., Ltd.	CNY 588,502 thousand	100%	Manufacture and sales of consumer products
Kao Commercial (Shanghai) Co., Ltd.	CNY 1,348,490 thousand	100%	Sales of consumer products
Kanebo Cosmetics (China) Co., Ltd.	CNY 1,271,687 thousand	100%	Sales of cosmetics products
Kao (Shanghai) Chemical Industries Co., Ltd.	CNY 740,000 thousand	100%	Manufacture and sales of chemical products
Kao (Taiwan) Corporation	TWD 597,300 thousand	92%	Manufacture and sales of consumer products and sales of chemical products
Pilipinas Kao, Inc.	USD 91,435 thousand	100%	Manufacture and sales of oleo chemicals products
Kao Industrial (Thailand) Co., Ltd.	THB 2,000,000 thousand	100%	Manufacture and sales of consumer products and chemical products
Fatty Chemical (Malaysia) Sdn. Bhd.	MYR 120,000 thousand	70%	Manufacture and sales of oleo chemicals products
PT Kao Indonesia	IDR 1,197,706 million	67%	Manufacture and sales of consumer products
Kao USA Inc.	USD 1	100%	Manufacture and sales of cosmetics products, skin care and hair care products, and sales of hair care products for beauty salons
Oribe Hair Care, LLC	USD 8,182 thousand	100%	Manufacture and sales of skin care and hair care products and hair care products for beauty salons
Washing Systems, LLC	USD 10	100%	Manufacture and sales of detergent for professional-use
Kao America Inc.	USD 3,200 thousand	100%	Provision of corporate services to affiliates in the United States
Kao Specialties Americas LLC	USD 1	100%	Manufacture and sales of chemical products
Kao Germany GmbH	EUR 25,000 thousand	100%	Sales of cosmetics and skin care products and hair care products for beauty salons
Kao Manufacturing Germany GmbH	EUR 13,000 thousand	100%	Manufacture and sales of hair care products
Kao Chemicals GmbH	EUR 9,101 thousand	100%	Manufacture and sales of chemical products
Molton Brown Limited	GBP 516 thousand	100%	Manufacture and sales of cosmetics products
Kao Chemicals Europe, S.L.	EUR 74,035 thousand	100%	Control of affiliates in the business of chemical products in Europe, etc.
Kao Corporation, S.A.	EUR 56,411 thousand	100%	Manufacture and sales of chemical products

Note: The above ratio of voting rights has been calculated based on the total number of voting rights held by the Company and its subsidiaries.

## 8. Main Offices, Plants, Laboratories, and Subsidiaries (as of December 31, 2020)

### (1) The Company

Name	Location
Head Office	Chuo-ku, Tokyo
Sumida Office	Sumida-ku, Tokyo
Osaka Office	Nishi-ku, Osaka-shi, Osaka
Odawara Office	Odawara-shi, Kanagawa
Sakata Plant	Sakata-shi, Yamagata
Tochigi Plant	Ichikai-machi, Haga-gun, Tochigi
Kashima Plant	Kamisu-shi, Ibaraki
Tokyo Plant	Sumida-ku, Tokyo
Kawasaki Plant	Kawasaki-ku, Kawasaki-shi, Kanagawa
Toyohashi Plant	Toyohashi-shi, Aichi
Wakayama Plant	Wakayama-shi, Wakayama
Tochigi Research Laboratories	Ichikai-machi, Haga-gun, Tochigi
Tokyo Research Laboratories	Sumida-ku, Tokyo
Odawara Research Laboratories	Odawara-shi, Kanagawa
Wakayama Research Laboratories	Wakayama-shi, Wakayama

### (2) Subsidiaries

#### 1) Japan

Company	Location
Kao Group Customer Marketing Co., Ltd.	Chuo-ku, Tokyo (Head Office) and 8 regional headquarter offices
Kanebo Cosmetics Inc.	Chuo-ku, Tokyo (Head Office)
Kao Transport & Logistics Co., Ltd.	Sumida-ku, Tokyo (Head Office) and 44 offices
Kao Cosmetic Products Odawara Co., Ltd.	Odawara-shi, Kanagawa (Head Office)
Kao Sanitary Products Ehime Co., Ltd.	Saijo-shi, Ehime (Head Office)

#### 2) Outside Japan

Company	Location
Kao (China) Holding Co., Ltd.	Shanghai
Kao Corporation Shanghai	Shanghai
Kao (Hefei) Co., Ltd.	Hefei, Anhui
Kao Commercial (Shanghai) Co., Ltd.	Shanghai
Kanebo Cosmetics (China) Co., Ltd.	Shanghai
Kao (Shanghai) Chemical Industries Co., Ltd.	Shanghai
Kao (Taiwan) Corporation	New Taipei City
Pilipinas Kao, Inc.	Philippines
Kao Industrial (Thailand) Co., Ltd.	Thailand
Fatty Chemical (Malaysia) Sdn. Bhd.	Malaysia
PT Kao Indonesia	Indonesia
Kao USA Inc.	United States
Oribe Hair Care, LLC	United States
Washing Systems, LLC	United States
Kao America Inc.	United States
Kao Specialties Americas LLC	United States
Kao Germany GmbH	Germany
Kao Manufacturing Germany GmbH	Germany
Kao Chemicals GmbH	Germany
Molton Brown Limited	United Kingdom
Kao Chemicals Europe, S.L.	Spain
Kao Corporation, S.A.	Spain

## 9. Employees of the Kao Group (as of December 31, 2020)

Business Category	Number of Employees
Consumer Products Business	28,523
Cosmetics Business	10,964
Skin Care and Hair Care Business	6,400
Human Health Care Business	5,570
Fabric and Home Care Business	5,589
Chemical Business	3,969
Others	917
Total	33,409

Notes:

1. The total number of employees has decreased by 194 from the previous fiscal year.
2. Of the above, the number of the Company's employees is 8,112.

## 10. Main Lenders (as of December 31, 2020)

Not applicable

## II. Shares of the Company (as of December 31, 2020)

1. Number of authorized shares: 1,000,000,000 shares

2. Number of issued shares: 482,000,000 shares

Note: The number of issued shares includes 260,372 treasury shares.

3. Number of shareholders: 72,078

### 4. Major Shareholders (Top 10)

Name / Company Name	Number of shares (thousand shares)	Ratio of shareholding (percentage)
The Master Trust Bank of Japan, Ltd. (Trust Account)	58,555	12.15
Custody Bank of Japan, Ltd. (Trust Account)	32,814	6.81
STATE STREET BANK AND TRUST COMPANY 505223	14,418	2.99
Custody Bank of Japan, Ltd. (Trust Account 7)	12,091	2.51
SMBC Nikko Securities Inc.	7,968	1.65
STATE STREET BANK WEST CLIENT - TREATY 505234	7,612	1.58
Custody Bank of Japan, Ltd. (Trust Account 5)	7,601	1.58
Custody Bank of Japan, Ltd. (Trust Account 6)	6,859	1.42
JAPAN SECURITIES FINANCE CO., LTD.	6,717	1.39
Nippon Life Insurance Company	6,691	1.39

Notes:

1. The number of shares in the list above may include the number of shares held in trusts or subject to share administration.
2. The ratio of shareholding for each shareholder above has been calculated based on the number of issued shares excluding treasury shares.

### III. Stock Acquisition Rights, etc., of the Company

The Company issues stock acquisition rights (*shinkabu yoyakuken*), allotted as remuneration to the Directors and Executive Officers of the Company who are not the Directors of the Company. The amount to be paid-in by an allottee at the time of the allotment of the stock acquisition rights is set off against the remuneration to be received by the allottee, and the exercise price is one (1) yen per share. Share remuneration type stock options are allotted for the purpose of enhancing the motivation and morale of the allottees to improve the corporate performance and stock value of the Company through further strengthening the correlation between remuneration to the allottees and the performance and stock value of the Company, as well as for the purpose of further increasing the Company's corporate value through promoting the shared interests of the allottees and the Company's shareholders.

Please note that the Company has not allotted any share remuneration type stock options since FY2017, in line with approval having been obtained at the 111th Annual General Meeting of Shareholders held on March 21, 2017, concerning the Company introducing a performance-based stock incentive plan for the purpose of improving the Company's mid- and long-term performance as well as increasing the awareness of contributions to increasing corporate value.

#### 1. Stock Acquisition Rights (as of December 31, 2020)

Name (Date of Issue)	Number of Stock Acquisition Rights	Type and Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights	Amount Paid in for Allotment of Stock Acquisition Rights	Value of Assets Contributed upon Exercise of Stock Acquisition Rights	Period for Exercising Stock Acquisition Rights
13 <sup>th</sup> Stock Acquisition Rights (May 22, 2014)	11	11,000 shares of the Company's common stock	3,808,000 yen per stock acquisition right	1 yen per share	July 1, 2016 - June 30, 2021
14 <sup>th</sup> Stock Acquisition Rights (May 21, 2015)	18	18,000 shares of the Company's common stock	5,630,000 yen per stock acquisition right	1 yen per share	July 1, 2017 - June 30, 2022
15 <sup>th</sup> Stock Acquisition Rights (May 26, 2016)	22	22,000 shares of the Company's common stock	5,681,000 yen per stock acquisition right	1 yen per share	July 1, 2018 - June 30, 2023

#### 2. Stock Acquisition Rights Held by Directors and Audit & Supervisory Board Members of the Company (as of December 31, 2020)

##### (1) Stock Acquisition Rights Held by Members of the Board (Excluding Outside Directors)

Name	Number of Stock Acquisition Rights Holders	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
13 <sup>th</sup> Stock Acquisition Rights	0	0	0
14 <sup>th</sup> Stock Acquisition Rights	1	4	4,000
15 <sup>th</sup> Stock Acquisition Rights	2	6	6,000

Note: From FY2017, the Company does not allot stock acquisition rights to its Directors.

##### (2) Stock Acquisition Rights Held by Outside Directors

Name	Number of Stock Acquisition Rights Holders	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
13 <sup>th</sup> Stock Acquisition Rights	1	2	2,000
14 <sup>th</sup> Stock Acquisition Rights	1	2	2,000

Note: From FY2016, the Company does not allot stock acquisition rights to its Outside Directors in accordance with the revision of the compensation system for Outside Directors.

#### 3. Stock Acquisition Rights, Allotted to Employees, etc., of the Company during This Fiscal Year

Not applicable

## IV. Directors and Audit & Supervisory Board Members of the Company

### 1. Status of Directors and Audit & Supervisory Board Members (as of December 31, 2020)

Title	Name	Duties at the Company and Other Material Position(s) Held
Representative Director, President and Chief Executive Officer	Michitaka Sawada	Outside Director, Panasonic Corporation
Representative Director, Senior Managing Executive Officer	Toshiaki Takeuchi	Representative Director, President, Kao Group Customer Marketing Co., Ltd.
Representative Director, Senior Managing Executive Officer	Yoshihiro Hasebe	Senior Vice President, Research and Development, Global; Senior Vice President, Strategic Innovative Technology, Global; Responsible for Compliance
Director, Managing Executive Officer	Tomoharu Matsuda	President, Consumer Products, Global; Responsible for Skin Care and Hair Care Business; Responsible for Human Health Care Business; Responsible for Fabric and Home Care Business; Responsible for Kao Professional Services Co., Ltd.
Outside Director	Sonosuke Kadonaga	President, Intrinsic; Director, Business Breakthrough Inc.; Outside Director, Chairperson of the Audit & Supervisory Committee, Sumitomo Mitsui Banking Corporation; Vice President, Business Breakthrough University
Outside Director	Osamu Shinobe	Special Advisor, ANA HOLDINGS INC.
Outside Director	Chiaki Mukai	Specially Appointed Vice President, Tokyo University of Science; Astronaut; Medical Doctor; M.D., Ph.D.; Outside Director, Fujitsu Limited
Outside Director	Nobuhide Hayashi	Senior Advisor, Mizuho Bank, Ltd.; Outside Director, Baroque Japan Limited; Outside Audit & Supervisory Board Member, JTB Corp.; Outside Audit & Supervisory Board Member, TOBU RAILWAY CO., LTD.
Full-time Audit & Supervisory Board Member	Katsuya Fujii	
Full-time Audit & Supervisory Board Member	Hideko Aoki	
Outside Audit & Supervisory Board Member	Hideki Amano	Certified Public Accountant; Outside Director, TOPPAN FORMS CO., LTD.; Outside Audit & Supervisory Board Member, Ajinomoto Co., Inc.; Outside Audit & Supervisory Board Member, Seiko Holdings Corporation
Outside Audit & Supervisory Board Member	Nobuhiro Oka	Attorney-at Law; Ph.D in Law, Chuo University; Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd.; Outside Director, Yamatane Corporation; Professor, Keio University Law School
Outside Audit & Supervisory Board Member	Takahiro Nakazawa	Certified Public Accountant

*Notes:*

1. Mr. Sonosuke Kadonaga, Mr. Osamu Shinobe, Ms. Chiaki Mukai and Mr. Nobuhide Hayashi are Outside Directors.
2. Mr. Hideki Amano, Mr. Nobuhiro Oka and Mr. Takahiro Nakazawa are Outside Audit & Supervisory Board Members.
3. Mr. Katsuya Fujii has had many years of experience in the Company's accounting management, and has considerable expertise in finance and accounting.
4. Mr. Hideki Amano and Mr. Takahiro Nakazawa, who are qualified as a Certified Public Accountant, have considerable expertise in finance and accounting.
5. The Company reported Mr. Sonosuke Kadonaga, Mr. Osamu Shinobe, Ms. Chiaki Mukai, Mr. Nobuhide Hayashi, Mr. Hideki Amano, Mr. Nobuhiro Oka and Mr. Takahiro Nakazawa to the Tokyo Stock Exchange, Inc. as Independent Directors/Audit & Supervisory Board Members as set forth in the Regulations of the Tokyo Stock Exchange, Inc.

6. *Personnel changes in Directors and Audit & Supervisory Board Members during this fiscal year:*
  - (1) *Mr. Takahiro Nakazawa was newly elected, and took his office, as an Audit & Supervisory Board Member, at the 114th Annual General Meeting of Shareholders held on March 25, 2020.*
  - (2) *Mr. Toraki Inoue, Outside Audit & Supervisory Board Member retired from his office upon the expiration of his term at the conclusion of the 114th Annual General Meeting of Shareholders held on March 25, 2020.*
7. *Mr. Michitaka Sawada, Representative Director has served as an Outside Director, Panasonic Corporation since June 25, 2020.*
8. *Mr. Nobuhide Hayashi, Director has served as an Outside Audit & Supervisory Board Member, TOBU RAILWAY CO., LTD. since June 23, 2020.*

## **2. Summary of Liability Limitation Agreements**

According to Article 427, Paragraph 1 of the Companies Act and Articles of Incorporation of the Company, the Company entered into an agreement with each Director (excluding Executive Director, etc.) and Audit & Supervisory Board Member to the effect that the liability of each Director (excluding Executive Director, etc.) or Audit & Supervisory Board Member under Article 423, Paragraph 1 of the Companies Act will be limited to the higher of: 10 million yen; or any amount prescribed by applicable laws and regulations.

## **3. Remuneration, etc., Paid to Directors and Audit & Supervisory Board Members**

### **(1) Policy for Determining Amount and Calculation Method of Remuneration**

The Company's compensation system for Directors, Audit & Supervisory Board Members and Executive Officers is aimed at i) securing and retaining diverse and excellent personnel to establish and improve competitive advantages; ii) promoting prioritized measures for lasting increases in corporate value; and iii) sharing interests in common with shareholders.

Remuneration of Directors, other than Outside Directors, and Executive Officers consists of (a) a base salary, (b) a bonus as short-term incentive compensation, and (c) performance-based share incentive plan as long-term incentive compensation, and is designed to provide an impetus for continuing annual improvement in business results and medium-to-long-term growth. Linkage of remuneration to business results increases with rank and takes into account the responsibilities of each position and individual performance. An overview of the components of remuneration is as follows.

#### **(a) 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.

#### **(b) Bonus as short-term incentive compensation**

When the bonus payment rate is paid at 100%, the bonus is set at 50% of the base salary for the President and CEO, 40% of the base salary for the Executive Officers with titles other than the CEO and 30% of the base salary for other Executive Officers. In order to achieve "profitable growth," the Company determines the bonus payment rate by looking at sales and profit (gross profit minus selling and general administrative expenses) results against the single-year target, improvement from the previous year's results and the achievement level of target EVA which is a management index that the Company holds in high regard as an indicator to measure the degree of corporate value. The bonus payment rate is set within a range of 0% to 200%. The sales and profit targets have been made consistent between Directors and employees so that they can work together to achieve them.

#### **(c) 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, Company shares, etc. are delivered to Directors, other than Outside Directors, and Executive Officers based on factors such as the level of achievement of the performance targets adopted under the mid-term plan and the non-financial targets related to ESG (Environment, Social and Governance) perspective. This performance-based share incentive plan comprises two parts: a performance-based part in which Company share, etc. is delivered in accordance with the degree of achievement of targets adopted under the mid-term plan, etc., and a fixed part in which a certain number of Company share, etc. is delivered annually. The purpose of the performance-based part of the system is to provide an impetus for achieving the targets of the Company's mid-term plan as well as to increase the link between performance and compensation over the medium to long term. The purpose of the fixed part of the system is to strengthen shared interest with the Company's shareholders by promoting the holding of shares by the Directors, other than 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 approximately 40% to 50% of a base salary.

In calculating the performance-based share incentive plan, the “like-for like net sales CAGR and “operating margin” are used as financial indicators from the targets set in the medium-term management plan, and evaluations are made based on the degree of achievement. In addition, as a non-financial indicator, the Company uses the evaluation of Ethisphere Institute, a U.S. think tank specializes in corporate ethics and corporate social responsibility through its “World’s Most Ethical Companies”<sup>\*</sup> award.

Long-term incentive compensation is determined in the range of 0% to 200% according to the results of these indicators.

Compensation for the Outside Directors, who hold a position independent from the Company’s business execution function, is limited to a fixed monthly salary.

The compensation system and compensation standards for the Directors and Executive Officers are examined by the Compensation Advisory Committee and determined by the Board of Directors. The Compensation Advisory Committee comprises all of the Company’s Representative Directors, all of the Company’s Outside Directors and all of the Outside Audit & Supervisory Board Members, from the perspective of ensuring objectivity and transparency in the decision-making process. As such, over half of the Committee’s members are independent.

Compensation for Audit & Supervisory Board Members consists of fixed monthly remuneration. Compensation standards are determined at meetings of the Audit & Supervisory Board.

Furthermore, the Company has established a Compensation Advisory Committee for Audit & Supervisory Board Members, and examines the validity and transparency in the decision-making process of compensation amounts for Audit & Supervisory Board Members, which are determined by the resolution of the General Meeting of Shareholders, from an outside perspective. The committee is composed of all Outside Audit & Supervisory Board Members, the President and CEO, and one Outside Director. The chair is elected from among the Outside Audit & Supervisory Board Members.

Compensation standards for the Directors, Executive Officers, and Audit & Supervisory Board Members are determined each year after ascertaining standards at other major manufacturers of a similar size, industry category, and business type to the Company using officer compensation survey data from an external survey organization.

The Company has no retirement bonus system for the Directors or Audit & Supervisory Board Members.

<sup>\*</sup> “World’s Most Ethical Companies” and “Ethisphere” are registered trademarks of Ethisphere LLC.



(2) Aggregate Amount of Remuneration, etc., Paid to Directors and Audit & Supervisory Board Members during this Fiscal Year

(million yen)

Category	Number of Members	Aggregate Amount of Remuneration, etc.	Components of Remuneration		
			Base Salary	Bonus as Short-term Incentive Compensation	Performance-based Share Incentive Plan as Long-term Incentive Compensation
Directors (including, in parentheses, Outside Directors)	8 (4)	240 (75)	268 (75)	83 (-)	-111 (-)
Audit & Supervisory Board Members (including, in parentheses, Outside Audit & Supervisory Board Members)	6 (4)	81 (30)	81 (30)	- (-)	- (-)
Total (including, in parentheses, Outside Directors and Outside Audit & Supervisory Board Members)	14 (8)	321 (105)	349 (105)	83 (-)	-111 (-)

Notes:

- The above numbers of Directors/Audit & Supervisory Board Members include one Outside Audit & Supervisory Board Member who resigned at the conclusion of the 114th Annual General Meeting of Shareholders held on March 25, 2020.
- As the current fiscal year is the final year of the Kao Group Mid-Term Plan "K20," the performance-based share incentive plan, including the performance-based portion for the final year, will be finalized after the end of the final year. The cumulative amount disclosed until the previous fiscal year, less the amount equivalent to the fixed-portion of the performance-based share incentive plan paid up until the current fiscal year exceeds this finalized amount. As the amount of provision recorded for the current fiscal year is 105 million yen, and the amount of provision for prior years based on factors including the degree of achievement of K20 is 216 million yen, the difference is shown as a reduction in the table above.

3. The maximum amounts of remuneration, etc. are as follows:

(1) Maximum aggregate amount of remuneration, etc., to be paid to Directors:

An annual amount of 630 million yen (as resolved at the 101st Annual General Meeting of Shareholders held on June 28, 2007). The Company had 15 Directors (including two Outside Directors) at the time such resolution was adopted. Such maximum aggregate amount includes the maximum annual amount of 100 million yen to be paid to Outside Directors (as resolved at the 110th Annual General Meeting of Shareholders held on March 25, 2016) but does not include the salary amounts, etc. to be paid to Directors who also serve as employees of the Company, for their service as employees. The Company had seven Directors (including three Outside Directors) at the time such resolution was adopted.

(For reference) Based on a resolution adopted at the 111th Annual General Meeting of Shareholders held on March 21, 2017, the Company has introduced a performance-based share incentive plan for its Directors (excluding Outside Directors) and its Executive Officers, which shall be applicable separately from the maximum aggregate amount of remuneration, etc., for the Directors. Under this share incentive plan, trust money of up to 1.85 billion yen is contributed concerning the fiscal years subject to the Company's mid-term plan (the initial period to be covered being the period of four fiscal years from the fiscal year ending December 31, 2017 to the fiscal year ending December 31, 2020), and the Company's shares are acquired through a trust and are then vested, etc. through the trust, based on factors such as the level of achievement of performance targets in the mid-term plan and the non-financial targets related to ESG perspective.

(2) Maximum aggregate amount of remuneration, etc., to be paid to Audit & Supervisory Board Members:

An annual amount of 120 million yen (as resolved at the 113th Annual General Meeting of Shareholders held on March 26, 2019). The Company had five Audit & Supervisory Board Members (including three Outside Audit & Supervisory Board Members) at the time such resolution was

adopted.

(3) Aggregate amount of remuneration, etc. paid to Outside Directors and Outside Audit & Supervisory Board Members by the Company's subsidiaries, etc., other than the aggregate amount of remuneration, etc. paid to Outside Directors and Outside Audit & Supervisory Board Members: Remuneration paid to one Outside Audit & Supervisory Board Member for his service as an Audit & Supervisory Board Member of Kao Group Customer Marketing Co., Ltd. was 4 million yen.

#### 4. Outside Directors and Outside Audit & Supervisory Board Members

(1) Relationships between the Company and Entities where Outside Directors and Outside Audit & Supervisory Board Members Hold Positions

Title	Name	Material Position(s) Held	Relationship with the Company
Director	Sonosuke Kadonaga	President, Intrinsic	No special relation
		Director, Business Breakthrough Inc.	No special relation
		Outside Director, Chairperson of the Audit & Supervisory Committee, Sumitomo Mitsui Banking Corporation	The Company engages in regular bank transactions with, and has loans from, Sumitomo Mitsui Banking Corporation; however, the amounts of the Company's loans from Sumitomo Mitsui Banking Corporation account for less than 2% of the Company's total assets for the latest fiscal year.
		Vice President, Business Breakthrough University	No special relation
Director	Osamu Shinobe	Special Advisor, ANA HOLDINGS INC.	No special relation
Director	Chiaki Mukai	Specially Appointed Vice President, Tokyo University of Science	The Company makes donations to Tokyo University of Science and has transactions which involve participation in seminars hosted by the university; however, the amounts of such donations, etc. account for less than 0.1% of the university's income from education activities and the Company's net sales for the latest fiscal year, respectively.
		Outside Director, Fujitsu Limited	The Company has transactions with Fujitsu Limited, which involve licenses and repair of Fujitsu Limited's products; however, the amounts of such transactions account for less than 0.1% of the Fujitsu Limited's net sales and the Company's net sales for the latest fiscal year, respectively.
Director	Nobuhide Hayashi	Senior Advisor, Mizuho Bank, Ltd.	The Company engages in regular bank transactions with and has loans from Mizuho Bank, Ltd., and receives consulting service in overseas markets; however, the amounts of such transactions account for less than 0.1% of Mizuho Bank, Ltd.'s ordinary income and the Company's net sales for the latest fiscal year,

			respectively.
		Outside Director, Baroque Japan Limited	No special relation
		Outside Audit & Supervisory Board Member, JTB Corp.	No special relation
		Outside Audit & Supervisory Board Member, TOBU RAILWAY CO., LTD.	No special relation
Audit & Supervisory Board Member	Hideki Amano	Outside Director, TOPPAN FORMS CO., LTD.	The Company has transactions with TOPPAN FORMS CO., LTD., which involve the purchase of TOPPAN FORMS CO., LTD.'s products; however, the amounts of such transactions account for less than 0.1% of TOPPAN FORMS CO. LTD.'s net sales and the Company's net sales for the latest fiscal year, respectively.
		Outside Audit & Supervisory Board Member, Ajinomoto Co., Inc.	The Company has transactions with Ajinomoto Co., Inc., which involve the payment of storage fees concerning the Company's products; however, the amounts of such transactions account for less than 0.1% of Ajinomoto Co., Inc.'s net sales and the Company's net sales for the latest fiscal year, respectively.
		Outside Audit & Supervisory Board Member, Seiko Holdings Corporation	No special relation
Audit & Supervisory Board Member	Nobuhiro Oka	Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd.	Kao Group Customer Marketing Co., Ltd. is a subsidiary of the Company.
		Outside Director, Yamatane Corporation	No special relation
		Professor, Keio University Law School	The Company has transactions with Keio University, which involve the advisory of research projects by such university; however, the amounts of such transactions account for less than 0.1% of the university's income from education activities and the Company's net sales for the latest fiscal year, respectively.

## (2) Principal Activities during this Fiscal Year

Title	Name	Attendance at Meetings of the Board of Directors	Attendance at Meetings of the Audit & Supervisory Board	Comments at Meetings
Director	Sonosuke Kadonaga	14 out of 14 meetings	—	As the Chairman of the Board, he contributed to the activation and the streamlining of the proceedings. Also, at meetings of the Board of Directors, he made comments principally based on his considerable experience as a management consultant.
Director	Osamu Shinobe	14 out of 14 meetings	—	At meetings of the Board of Directors, he made comments principally based on his considerable experience as a manager of an airline company.
Director	Chiaki Mukai	14 out of 14 meetings	—	At meetings of the Board of Directors, she made comments principally based on her extensive expertise in the scientific field.
Director	Nobuhide Hayashi	14 out of 14 meetings	—	At meetings of the Board of Directors, he made comments principally based on his considerable experience as a manager of a financial institution.
Audit & Supervisory Board Member	Hideki Amano	14 out of 14 meetings	8 out of 8 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, he made comments principally based on his professional opinion as a Certified Public Accountant.
Audit & Supervisory Board Member	Nobuhiro Oka	14 out of 14 meetings	8 out of 8 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, he made comments principally based on his professional opinion as an attorney-at-law.
Audit & Supervisory Board Member	Takahiro Nakazawa	12 out of 12 meetings	6 out of 6 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, he made comments principally based on his professional opinion as a Certified Public Accountant.

*Note: During this fiscal year, 14 meetings of the Board of Directors and 8 meetings of Audit & Supervisory Board were held. After Mr. Takahiro Nakazawa took his office as Audit & Supervisory Board Member, 12 meetings of the Board of Directors and 6 meetings of the Audit & Supervisory Board were held.*

**(For Reference) Status of Executive Officers (as of January 1, 2021)**

<b>Title</b>	<b>Name</b>	<b>Duties at the Company and Other Material Position(s) Held</b>
President and CEO	Yoshihiro Hasebe	Responsible for Human Capital Development
Senior Managing Executive Officer	Toshiaki Takeuchi	Representative Director, President, Kao Group Customer Marketing Co., Ltd.
Managing Executive Officer	Tomoharu Matsuda	President, Consumer Products, Global; Responsible for Kao Professional Services Co., Ltd.
Managing Executive Officer	Shigeru Ueyama	Senior Vice President, Corporate Strategy, Global
Managing Executive Officer	Masakazu Negoro	Senior Vice President, Procurement, Global; Responsible for Accounting and Finance
Managing Executive Officer	Yasushi Wada	Senior Vice President, Product Quality Management, Global; Responsible for Legal and Compliance
Managing Executive Officer	Osamu Tabata	Senior Vice President, Supply Chain Management, Global; Responsible for TCR Promotion
Managing Executive Officer	Yoshihiro Murakami	President, Consumer Products - Cosmetics Business, Global; Senior Vice President, Consumer Products - DX Co-Creation, Global; Representative Director, President, Kanebo Cosmetics Inc.; Chairman of the Board, Molton Brown Limited
Managing Executive Officer	Hideaki Kubo	Senior Vice President, Research and Development, Global
Managing Executive Officer	Toru Nishiguchi	President, Consumer Products, Asia; Responsible for Consumer Products - Merries Business; Chairman of the Board and President, Kao (China) Holding Co., Ltd.; Chairman of the Board and President, Kao Corporation Shanghai; Chairman of the Board, Kao Commercial (Shanghai) Co., Ltd.; Chairman of the Board, Kanebo Cosmetics (China) Co., Ltd.; Chairman of the Board and President, Kao (Hefei) Co., Ltd.
Executive Officer	Satoru Tanaka	President, Consumer Products, Americas and EMEA; Chairman of the Board, Kao USA Inc.; Chairman of the Board, Oribe Hair Care, LLC
Executive Officer	Kenichi Yamauchi	Senior Vice President, Accounting and Finance, Global; President, Kao America Inc.
Executive Officer	Ryoichi Harada	Senior Vice President, Enterprise Information Solutions, Global
Executive Officer	Hiroaki Taki	Senior Vice President, Consumer Products - Marketing Emergence, Global
Executive Officer	David J. Muenz	Senior Vice President, ESG, Global
Executive Officer	Akio Matsui	Senior Vice President, Human Capital Development, Global; President, Kao Group Corporate Pension Fund; Chairman of the Board, Kao America Inc.
Executive Officer	Hideichi Nitta	Vice President, Supply Chain Management - Demand and Supply Planning Center, Global
Executive Officer	Masahiro Katayose	President, Chemical Business, Global; Chairman of the Board, Fatty Chemical (Malaysia) Sdn. Bhd.; Chairman of the Board, Pilipinas Kao, Inc.; Chairman of the Board, Kao Chemicals Europe, S.L.
Executive Officer	Shigeo Nakai	Vice President, Research and Development - Performance Chemicals Research, Global;

		Responsible for Research and Development - Environmental New Business
Executive Officer	Hideki Mamiya	Representative Director, Senior Managing Executive Officer, Kao Group Customer Marketing Co., Ltd.
Executive Officer	Masaru Takeyasu	Senior Vice President, Legal and Compliance, Global
Executive Officer	Hiroaki Yamaguchi	Vice President, Supply Chain Management - Manufacturing Plant Center, Global
Executive Officer	Atsushi Koizumi	Senior Vice President, Consumer Products - Business Planning and Management, Global
Executive Officer	Kotaro Nuriya	President, Consumer Products - Health & Beauty Care Business, Global
Executive Officer	Motomitsu Hasumi	Vice President, Research and Development - Household Products Research, Global; Responsible for Research and Development - Consumer Products Technology
Executive Officer	Mami Murata	Vice President, Corporate Strategy - Strategic Public Relations, Global
Executive Officer	Natsumi Hotta	President, Consumer Products - Hygiene & Living Care Business, Global
Executive Officer	Akira Shimotoyodome	President, Consumer Products - Life Care Business, Global

## V. The Accounting Auditor of the Company

### 1. Name of the Accounting Auditor

Deloitte Touche Tohmatsu LLC

### 2. Amount of Remuneration, etc., to be Paid to the Accounting Auditor for this Fiscal Year

- (1) Amount of remuneration, etc., to be paid by the Company as Accounting Auditor fees: 139 million yen
- (2) Aggregate amount of monetary and other proprietary benefits to be paid by the Company and its subsidiaries: 219 million yen

Notes:

1. *The audit contract between the Company and the Accounting Auditor does not clearly distinguish between remuneration, etc., paid for the audit conducted in accordance with the Companies Act from that paid for the audit conducted in accordance with the Financial Instruments and Exchange Law, and it is practically impossible to make such a distinction. The amount of remuneration, etc., specified in (1) above, is the aggregate amount of remuneration, etc., for these two types of audits.*
2. *After having performed the necessary verification as to the appropriateness of matters such as the content of the Accounting Auditor's audit plan, the status of performance of duties by the Accounting Auditor, and the basis for the calculation of the estimated remuneration for the Accounting Auditor, the Audit & Supervisory Board has decided to consent to the amount of remuneration, etc. to be paid to the Accounting Auditor.*
3. *In addition to the audit certification services prescribed in Article 2.1 of the Certified Public Accountant Law, the Company entrusted the Accounting Auditor with other services such as preparation of a comfort letter in relation to an issuance of straight bonds.*
4. *Of the Company's main subsidiaries listed on page 25 audits (limited to audits under the Companies Act or the Financial Instruments and Exchange Law, and including audits under equivalent foreign laws and regulations) in respect of Kao (China) Holding Co., Ltd., Kao Corporation Shanghai, Kao (Hefei) Co., Ltd., Kao Commercial (Shanghai) Co., Ltd., Kanebo Cosmetics (China) Co., Ltd., Kao (Shanghai) Chemical Industries Co., Ltd., Kao (Taiwan) Corporation, Pilipinas Kao, Inc., Kao Industrial (Thailand) Co., Ltd., Fatty Chemical (Malaysia) Sdn. Bhd., PT Kao Indonesia, Kao Germany GmbH, Kao Manufacturing Germany GmbH, Kao Chemicals GmbH, Molton Brown Limited, Kao Chemicals Europe, S.L., and Kao Corporation, S.A. have been performed by certified public accountants or accounting firms other than the Company's Accounting Auditor (including those with equivalent foreign qualifications).*

### 3. Policy for Determining the Dismissal or Non-reappointment of the Accounting Auditor

If any item of Article 340, Paragraph 1 of the Companies Act is found to apply to the Accounting Auditor, the Audit & Supervisory Board will dismiss the Accounting Auditor with the consent of all Audit & Supervisory Board Members. In such case, the Audit & Supervisory Board Members selected by the Audit & Supervisory Board will report the dismissal of the Accounting Auditor and the reason for the dismissal at the first General Meeting of Shareholders held after the dismissal. Furthermore, if the Audit & Supervisory Board finds any problem in the qualifications, independence, or reliability of the Accounting Auditor, the content of a proposal to be submitted to the General Meeting of Shareholders for dismissal or non-reappointment of the Accounting Auditor will be determined.

If the Board of Directors finds any problem, such as in the qualifications, independence, or reliability of the Accounting Auditor, the Board of Directors will request the Audit & Supervisory Board to cause the dismissal or non-reappointment of the Accounting Auditor to be proposed to the General Meeting of Shareholders, and the Audit & Supervisory Board shall decide upon the content of the relevant proposal to be submitted to the General Meeting of Shareholders after having determined the appropriateness of such matter.

## **VI. Systems to Assure Appropriate Business Operations of the Company and Outline of Management of such Systems**

### **1. Systems to Assure Appropriate Business Operations of the Company**

The Board of Directors made the following resolution with respect to the “Policy Regarding the Development of the Internal Control Systems.”

#### **Basic Policy Regarding the Internal Control System**

The Company has established an Internal Control Committee chaired by the President and Chief Executive Officer. An important task of the committee is to develop a management structure, organization and system that facilitates legally compliant, efficient, sound and highly transparent management that aims to consistently increase corporate value, and for this objective, the Company implements the following systems:

#### **(1) A system to ensure that execution of duties of Directors and employees of the Company and its subsidiaries conforms to laws and the Articles of Incorporation**

Directors, Executive Officers and employees of the Company and its subsidiaries (Kao Group) should act with integrity based on “Kao’s Business Conduct Guidelines (BCG),” which governs compliance with laws, the Articles of Incorporation, internal rules and social ethics. The Compliance Committee, chaired by the Director in charge of compliance, promotes Kao Group’s compliance as a whole. On the basis of the provision of BCG which declares Kao’s position to reject any relationship with anti-social forces, the Company promotes cooperation with governmental agencies, etc. and collection and management of information regarding anti-social forces and establishes and maintains its internal system. Monitoring by the Department of Internal Audit as well as notices and reports to the Compliance Reporting Hotline from concerned parties in and outside the Company enable Kao to quickly gauge the state of compliance, work to quickly resolve any issues that arise, and take appropriate steps to prevent the recurrence of similar cases.

#### **(2) A system for retention and management of information concerning Directors’ execution of their duties**

Information (minutes, decision records and their relevant materials, account books and records, and other information and the like) related to the Directors’ execution of their duties is properly retained and managed according to the document retention and management policies and other related policies. The Directors, Audit & Supervisory Board Members and employees designated by them may access such information at any time.

#### **(3) Rules and other systems concerning management of risk of losses by the Company and its subsidiaries**

With regard to the risk of losses, the Company regards potential negative impact on management targets and business activities as “risks” and the manifestation of such risks as a “crisis,” and has established systems for appropriate risk and crisis management. Based on the Risk and Crisis Management Policy, the Risk & Crisis Management Committee, chaired by the Director or Executive Officer in charge of risk and crisis management, ascertains the progress of cross-divisional Company-wide risk management and establishes a plan for the preparation and application of risk and crisis management activities. Based on this policy and plan, departments concerned with risk or subsidiaries and affiliates appropriately manage risk by ascertaining and assessing risks, formulating and implementing necessary countermeasures, and other activities. In addition, after deliberation by the Management Committee, the President and Chief Executive Officer specifies major Company-wide risks as corporate risk and appoints a person to appropriately manage such risk. When a crisis occurs, the Company responds promptly by establishing an organization for countermeasures centered on this person in charge for corporate risk, and on departments concerned with risk or subsidiaries and affiliates for other types of risk. In addition, depending on the magnitude of the impact on the Group as a whole, the Company also establishes a countermeasures headquarters with the President and Chief Executive Officer or other person as its general manager. Management of the abovementioned risks and crises is reported to and discussed at the Meeting of the Board of Directors or the Management Committee on a regular basis as well as in a timely fashion whenever necessary.



**(4) A system to ensure that Directors of the Company and its subsidiaries efficiently execute their duties**

After determining the direction to be focused on in a mid-term business plan, the Board of Directors reflects such direction in the mid-term plans of each department and subsidiary. The mid-term plans are reviewed annually by the Board of Directors and the Management Committee, and necessary adjustments are made in response to the progress of the plans and changes in the business environment. The Management Committee reviews, monthly or whenever appropriate, the progress of the revenue and expenditure plan and other important business plans of each division and subsidiary, extracts the main issues and then implements measures in response. In order to separate supervision and execution functions and to ensure the effectiveness of these functions and to accelerate execution, the decision rules for the Board of Directors and the Management Committee including items that arise from subsidiaries are established and reviewed as necessary.

**(5) A system to ensure the appropriateness of business operations in the Company and its subsidiaries**

The Internal Control Committee and related committees promote various policies to make sure that the business activities of the Kao Group conform to laws and the respective Articles of Incorporation. In addition, they promote and monitor efforts to ensure the appropriateness and efficiency of business operations throughout the Kao Group, and report regularly to the Board of Directors. Representative Directors, Directors and Executive Officers in charge of business operations provide guidance for the development of appropriate internal control systems for subsidiaries, according to their respective duties.

**(6) A system concerning reporting to the Company regarding execution of duties of Directors of the Company's subsidiaries**

The Company applies the Group Management rules (Policy Manual) to all subsidiaries, which require prior approvals of or reporting to the Company. The Company requires them to gain prior approvals or make a report on important management matters to the Board of Directors, Management Committee or an executive officer who are in charge of the subsidiary in accordance with such rules as well as the decision and reporting rules for the Board of Directors and Management Committee. In addition, Directors of the Company's subsidiaries, regularly or as necessary, discuss or report to the periodic meetings held every month in principle and established by each business area or functional area which supports business. Also, Department of Internal Audit and responsible divisions, regularly or as necessary, monitor the state of implementation of prior approvals or reporting based on the rules.

**(7) A system to ensure the reliability of financial reports**

In order to ensure the reliability of financial reports, the Company evaluates, improves and documents in writing the state of the Company's internal control system and the process of business operations based on the principles of the Internal Control Committee and the Board of Directors confirms these activities regularly.

**(8) Employees to be assigned if Audit & Supervisory Board Members request staff to assist in their duties**

In the event that a request is made by Audit & Supervisory Board Members for the assignment of staff to provide assistance to conduct their audits effectively, the Directors should assign employees after discussing the selection of specific personnel with the Audit & Supervisory Board Members.

**(9) Independence of employees in the preceding paragraph from Directors and ensuring effectiveness of instruction by Audit & Supervisory Board Members to such employees**

In assignment, evaluation, transfer and disciplinary action of or to employees who assist in the duties of Audit & Supervisory Board Members, the prior consent of the Audit & Supervisory Board should be obtained. Instructions by the Audit & Supervisory Board to such employees should not be restricted unreasonably, and such employees must follow the instructions.

**(10) A system for Directors, Executive Officers and employees of the Company and Directors, Auditors and employees, etc. of the Company's subsidiaries to report to Audit & Supervisory Board Members of the Company**

Audit & Supervisory Board Members may attend meetings of the Management Committee, the Internal Control Committee and related committees, and may access the minutes, decision records and other documents of important meetings at any time. They may also receive activity reports from the head of

each division and subsidiary regularly or as necessary, and have periodic exchanges of views with Representative Directors of the Company and major subsidiaries and exchanges of views with Representative Directors of the Company's subsidiaries when conducting an audit. In addition, Directors, Executive Officers and employees of the Company and Directors, Auditors and employees of subsidiaries, etc. should promptly report to Audit & Supervisory Board Members when any fact that may potentially cause significant harm to the Company or to its subsidiaries or any fact of a serious violation of laws or the Articles of Incorporation occurred or when those fact were reported. Compliance Committee reports information delivered to Compliance Hotline and Department of Internal Audit reports audit results to Audit & Supervisory Board Members regularly or as necessary. Auditors of subsidiaries share audit results with Audit & Supervisory Board Members of the Company at the Conference of Auditors for Domestic Group Companies held periodically.

**(11) A system to ensure that those who made such reports in the preceding paragraph shall not receive any disadvantageous treatment due to his/her submission of the reports**

Directors and employees of Kao Group who made reports to Compliance Hotline or to Audit & Supervisory Board Members, etc. shall not receive any disadvantageous treatment due to his/her submission of the reports and the Company stipulates prohibiting any disadvantageous treatment in Kao Business Conduct Guideline and ensures compliance of this rule.

**(12) Policy concerning payment or reimbursement of expenses pertaining to execution of duties by Audit & Supervisory Board Members including advance payment of expenses and reimbursement procedure, etc.**

In the event of requests for appropriation to the fiscal year budget for the payment of expenses and other expenditures arising in the execution of the duties of Audit & Supervisory Board Members, a budget is accordingly provided. When expenses provided for in the budget arise, or when the necessity arises for the execution of non-budgeted emergency or additional auditing or other duties and Audit & Supervisory Board Members charge expenses pertaining to execution of their duties or debt disposal, the Company shall promptly accept such requests, except in the cases set forth in Article 388 of the Companies Act.

**(13) A system to ensure that audits by Audit & Supervisory Board Members are conducted effectively**

In order to conduct efficient and effective audits, Audit & Supervisory Board Members maintain a close cooperative relationship (including through exchanges of information) with the Accounting Auditor, Department of Internal Audit, internal auditing departments, as well as with Auditors and internal auditing departments of subsidiaries. In addition, Audit & Supervisory Board Members are entitled to hold meetings with Outside Directors to exchange information and opinions and independently receive support from outside specialists such as lawyers and certified public accountants when necessary.

**(14) Implement of a system to ensure the appropriateness of business operations**

The Board of Directors conducts periodic reviews of implement of a system to ensure the appropriateness of Kao Group's business operations, and includes the summary of state of implement in the business report.

**2. Outline of Management of Systems to Assure Appropriate Business Operations of the Company**

Based on the above policies, the Company has established an Internal Control Committee chaired by the Representative Director, President and CEO to set up and properly operate its internal control system. Principal efforts made during this fiscal year, which are considered to be important in terms of internal control, include the following:

**Efforts Concerning Compliance**

Under the initiative of the Compliance Committee chaired by the Representative Director, Senior Managing Executive Officer responsible for compliance, efforts have been continuously made in this area, involving both domestic and overseas Kao Group companies, such as by improving related regulations, including Kao's Business Conduct Guidelines (BCG), which are conduct guidelines for implementing the Kao Way, as well as by carrying out educational and awareness activities and setting up and properly operating the Compliance Hotline.

This fiscal year, the following efforts were made in order to reduce material compliance risks:

- In the event of compliance violations, we have implemented a thorough first report system to immediately report to senior management, and for cases that require special attention, the Compliance Committee has confirmed the details of the true cause analysis and measures to prevent recurrence by the department, and has worked to reduce risk so that similar cases do not occur outside the department concerned.
- The hotline system is established and implemented throughout the Company and its domestic and overseas group companies and 304 reports and consultations were received during this fiscal year. Of all the reported and consulted cases, we conducted fact-finding investigations on all cases that have been requested for investigation and resolved each issue one by one and worked to foster an "open climate" that would make it easier for internal voices to be raised in order to prevent the spread and prolongation of compliance violations.
- As efforts to prevent compliance violation, we worked to maintain and improve the compliance awareness of every employee by sharing examples of violations, conducting e-learning for all employees in Japan to prevent harassment, and having the Chairman of the Compliance Committee give a lecture on the importance of compliance.
- Tasks were sorted out from the evaluation items obtained through the principal external evaluation institutes and such tasks were added to the future activity plans.

#### **Efforts Concerning Risk and Crisis Management**

This fiscal year, in response to the global outbreak of COVID-19, the Emergency Response Headquarters (headed by the President and CEO) was held more than 30 times during the year to decide on Company-wide policies regarding (1) ensuring the safety of all global employees and their families, (2) continuing business activities, and (3) contributing to society, and to thoroughly prevent the spread of COVID-19 and maximize business operations. In addition, a review of our response to COVID-19 and a survey on future risks were conducted for all domestic and overseas sites and departments to strengthen our global response.

In addition to infectious diseases, we also strengthened our response to corporate risk (material management risks, including not only risks that affect business continuity but also risks that affect corporate credibility and risks related to management strategies) under the progress management of the Risk & Crisis Management Committee.

#### **Efforts Concerning Subsidiary Management**

The executive officers in charge provides guidance on the establishment and operation of the internal control system to subsidiaries in accordance with the segregation of duties.

Overseas subsidiaries are required to internally share information concerning any material risks and the measures to be taken, at the time of ordinary executive meetings at such subsidiaries. In addition, risks which may be identified by the respective subsidiaries based on instructions given by the Company are reported to the Company's departments that are principally in charge of the matters involved, along with the measures to be taken.

At periodic meetings established based on the businesses and the functions for supporting such businesses, agenda items have been submitted and reports made whenever necessary, based on the criteria for submission of agenda items. In addition, the Company confirmed that proposals and reports have been made in accordance with regulations, etc., by receiving checklists by each department responsible for internal control and by conducting site visits by the Department of Internal Audit.

In addition, the Department of Internal Audit and sections in charge of subsidiary management have verified that agenda items have been submitted and reports made in accordance with regulations, etc., by way of site visits for auditing purposes or by causing checklists to be submitted.

Regarding important matters of subsidiaries, agenda items have been submitted and reports made from subsidiaries to the Company whenever necessary, in accordance with the Group Management rules, known as the "Policy Manual," that set forth matters regarding which subsidiaries are required to obtain prior approval from the Company or to make a report to the Company. Based on the "Policy Manual," all matters pointed out by the Department of Internal Audit are shared among directors and officers of the relevant subsidiaries, at the time of executive meetings at such subsidiaries, along with the measures to be taken and the results thereof and report to the Company's departments that are principally in charge of the matters involved.

### **Efforts Concerning Auditing by Audit & Supervisory Board Members**

The Audit & Supervisory Board Members attend meetings of the Board of Directors, audit compliance with laws and regulations, managerial decision-making processes and matters such as the status of development and management of the internal control environment, and express their opinions whenever necessary.

During this fiscal year, the Group maintained its audit quality based on the measures to prevent the spread of COVID-19, while utilizing remote audit.

Full-time Audit & Supervisory Board Members also attend important meetings including meetings of the Management Committee, the Internal Control Committee and related committees, etc. In addition, Full-time Audit & Supervisory Board Members visit plants and research laboratories, etc. for auditing purposes, listen to opinions from business and functional sections, and perform investigations concerning, and listen to opinions from domestic and overseas affiliates, with the participation of Outside Audit & Supervisory Board Members where appropriate. Based on the findings and opinions obtained through such auditing activities, meetings for exchanging opinions are held with Representative Directors of the Company and its material subsidiaries, as well as with Outside Directors, with all Audit & Supervisory Board Members being in attendance and making proposals whenever necessary.

Also, for the purpose of recognizing the status of group governance and confirming the operational status of internal control systems, etc., meetings of the Conference of Auditors for Domestic Group Companies are held, and the Audit & Supervisory Board Members exchange information and opinions with the auditors of affiliates at the time they perform investigations and listen to opinions at the respective affiliates, and work closely together with the Department of Internal Audit and other internal auditing related departments, such as by exchanging information and opinions both periodically and whenever necessary, thereby striving to improve the effectiveness and efficiency of audits, including those performed by overseas affiliates

Furthermore, the Audit & Supervisory Board Members receive an annual audit plan and accounting audit results (quarterly reviews and annual audit results) from, and duly exchange information and opinions with, the Accounting Auditor, while supervising the independence and appropriateness of audits performed by the Accounting Auditor.

### **Status of Revisions to Policy Regarding the Development of the Internal Control Systems**

At the Board of Directors meeting held in December 2020, in order to further enhance the internal control system toward the realization of the new medium-term management plan, it was resolved to revise the Policy Regarding the Development of the Internal Control Systems to clearly state the role of the department in charge of internal control.

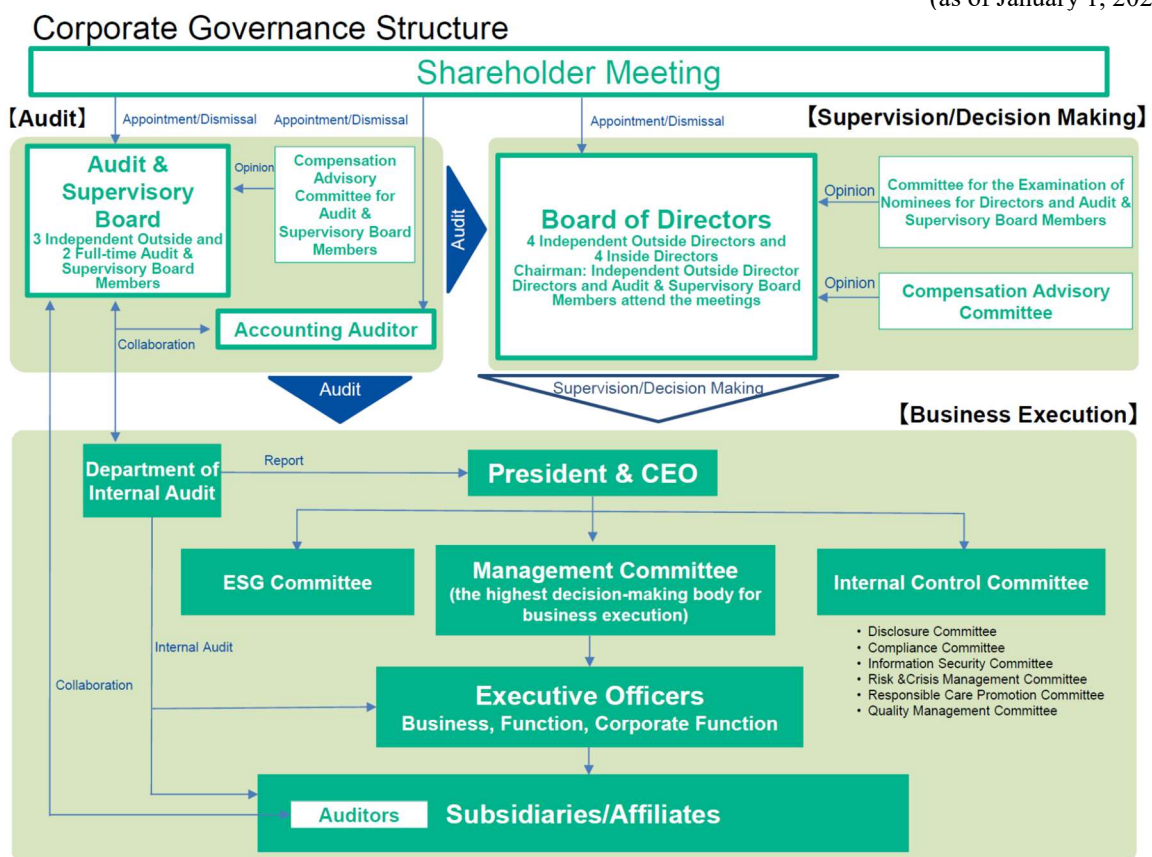
(For your reference)

## Basic Views of Corporate Governance

### Basic Policy

Our targets for 2030 is to make Kao a company with a global presence, valuable to society. In order to become an essential company in a sustainable world, the Company is significantly shifting its direction to ESG (environmental, social, and governance) management. While aiming to become a high-profit global company, the Company is also working toward raising the level of social contribution by capturing changes in business environments surrounding the Company and changes in stakeholders' values. In order to gain trust from society, which is indispensable for these corporate activities and business activities, the Company is constantly strengthening its corporate governance in both systems and operations. The Company views accomplishing its corporate governance as one of its most important management issues and the Company's basic stance on measures related to corporate governance is to set up and operate a management structure and an internal control system, 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 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.

(as of January 1, 2021)



### 1. Board of Directors

In order to promote sustainable growth and medium-to-long-term enhances in corporate value, the Company principally deliberates from various perspectives, including evaluation of risks, and determines the overall direction of management such as business strategies. In addition, Inside Directors and Full-time Audit & Supervisory Board Members who are familiar with the strengths and tasks involved in the management and business of the Kao Group, as well as Outside Directors and Outside Audit & Supervisory Board Members who have neutral and objective perspectives based on their abundant experience and high level of professional skill and expertise, work together to oversee the appropriate execution of management strategies from various perspectives. Moreover, the Company draws sharp distinctions between risks through the establishment of internal control and risk management systems. In these ways the Company has created an environment that allows for a more proactive style of management.

<Analysis and Evaluation of 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, the Company conducted a survey in advance, and the Board of Directors discussed and exchanged their opinions regarding the shared results. Based on that all members who participate in meetings of the Board of Directors, including Audit & Supervisory Board Members, to express opinions, discuss and conduct evaluation.

2. Audit & Supervisory Board

Composed of both Full-time Audit & Supervisory Board Members who are well informed about internal affairs and Outside Audit & Supervisory Board Members who have a high level of professional skill and expertise in the field of accounting/finance or law, the Audit & Supervisory Board engages in meaningful discussions from an independent and objective perspective. Furthermore, the Audit & Supervisory Board performs highly effective audits principally through: attendance of the Audit and Supervisory Board Members at important meetings such as meetings of the Board of Directors and the Management Committee; its cooperation with the Accounting Auditor, the Department of Internal Audit and auditors of affiliates; and conducting audits of each internal departments and investigation of affiliates.

<Analysis and Evaluation of Effectiveness of the Audit & Supervisory Board>

Once a year, all the Audit & Supervisory Board Members express their opinions, discuss and conduct evaluation while referring to a list of focal points for the effectiveness of the evaluation prepared in advance at the Audit & Supervisory Board.

<Compensation Advisory Committee for Audit & Supervisory Board Members>

This Committee is composed of all Outside Audit & Supervisory Board Members, the CEO, and one Outside Director. The Committee examines the validity and transparency in the decision-making process of compensation amounts for Audit & Supervisory Board Members, which are determined by the resolution of the General Meeting of Shareholders, from an outside perspective and submits its opinions to the Audit & Supervisory Board.

3. Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members and the Compensation Advisory Committee

To ensure thorough fairness and transparency in the processes for determining Director appointments and compensation, the Company has voluntarily established the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members and the Compensation Advisory Committee.

1) Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members

This committee is composed of all Outside Directors and all Outside Audit & Supervisory Board Members and it conducts examinations concerning the appropriateness of nominees for Directors including Chair, President and CEO and Representative Directors and Audit & Supervisory Board Members and submits its opinions to the Board of Directors. Furthermore, the committee discusses the size, composition and diversity of the Board of Directors and Audit & Supervisory Board, as well as the qualities and abilities required of the President and CEO, Directors and Audit & Supervisory Board Members, and reports the results of these examinations to the Board of Directors.

2) Compensation Advisory Committee

This committee is composed of all Representative Directors, Director, Chair, all Outside Directors and all Outside Audit & Supervisory Board Members. The committee conducts prior examinations concerning the compensation systems and levels for Directors and Executive Officers and submits its opinions to the Board of Directors.

The Board of Directors, the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members and the Compensation Advisory Committee are each chaired by an Independent Outside Director. In addition, an effectiveness evaluation is conducted every year in respect of all of the two governing bodies described above.

The evaluation results of Board of Directors, Audit & Supervisory Board, Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members and Compensation Advisory Committee for fiscal 2020 are disclosed in the Company's Corporate Governance Report.  
[www.kao.com/global/en/about/policies/corporate-governance/](http://www.kao.com/global/en/about/policies/corporate-governance/)

#### 4. Internal Control Committee

This committee supervise and promote internal control activities throughout the entire Kao Group 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 the maintenance and promotion of internal control.

#### 5. 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 strategy, aiming to contribute to sustainable development of Kao Group and society. The materialization of the ESG strategy is promoted by the ESG Promotion Meeting and is deployed in the activities of each department. In addition, the ESG Committee confirms the direction of activities based on the status of promoting ESG activities through Kao Group and the recommendations of the ESG External Advisory Board, reviews as necessary.

#### 6. Management Committee

This committee, which is mainly composed of members with the position of Managing Executive Officer or higher who have a great deal of 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, the Company works to speed up its decision-making and execution process.

**- End -**