

(Translation)

Kao Corporation

Corporate Governance

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Kao Corporation

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Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

The Company's basic stance on measures related to corporate governance is to implement the necessary policies and fulfill its accountability by setting up and operating a management structure and internal control system in order to rapidly realize efficient, sound, fair and highly transparent management with the aim of continuously increasing corporate value. This is positioned as one of its most important management tasks. The Company conducts annual reviews and implements appropriate measures while integrating social trends and responding to the requests of our shareholders and all other stakeholders.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code]

The Company implements all of the principles which require an explanation of reasons for not implementing.

[Disclosure Based on the Principles of the Corporate Governance Code] **[Updated]**

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Link of the forecast of consolidated results for the FY 2015 and "12. Measures for Directors and Audit & Supervisory Board Members to improve understanding and knowledge required to fulfill their roles and duties" are updated.

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<Definitions>

As used in these matters to be disclosed, the definitions of the following terms shall be as follows:

- “Management” means Members of the Board of Directors and Executive Officers.
- “Senior Management” means Executive Officers with titles.

1. Corporate philosophy (Principle 3.1(i))

The “Kao Way” has been prescribed as a corporate philosophy which constitutes the foundation of the business activities of the Kao Group.

(1) Mission

Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective. This commitment is embraced by all members of the Kao Group as we work together with passion to share joy with consumers and customers in our core domains of cleanliness, beauty, health and chemicals.

(2) Vision

We aim to be the global group of companies that is closest to the consumers and customers in each market, earning the respect and trust of all stakeholders.

(3) Values

- 1) Yoki-Monozukuri (The Company defines "Yoki-Monozukuri" as "a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction.")
- 2) Innovation
- 3) Integrity

(4) Principles

- 1) Consumer Driven
- 2) Genba-ism (The Company defines "Genba-ism" as the importance of observing things "on-site," in the actual location and environment, both internally and externally, in order to maximize our understanding of the business and optimize our performance.)
- 3) Respect & Teamwork
- 4) Global Perspective

(For further details regarding the “Kao Way,” please see

http://www.kao.com/jp/en/corp_about/kaoway.html.)

2. Long-term Business Strategy (Principle 3.1(i))

(1) Long-term Targets

As its target for 2020 based on the above corporate philosophy, the Company will work for both “profitable growth” and “contribution to the sustainability of the world” as it aims to become “a company with a global presence.” To achieve this vision, the Company will promote the further reinforcement of the existing businesses that are its strength and the creation of new markets from a global perspective utilizing the R&D capabilities that will create value for the future, in addition to implementing basic measures to further raise the level of safety and security.

(2) Three Megatrends for Global Growth and the Company's Response

The Company has selected the following three items as important megatrends for global growth.

- A shift in the center of the economy from mature countries to emerging countries
- The emergence of new consumers such as consumers who use digital media and the growing elderly population in advanced countries
- Rising awareness of environmental issues

The Company views these megatrends as good opportunities, and focuses on developing its products, services, and marketing and sales methods tailored to markets and consumers by using its ability to analyze consumer needs and its R&D and other capabilities which are its strengths, not only to enhance the markets where it already does business, but also to proactively advance into markets it has not yet entered and create new markets where it can use these strengths. The Company also works to develop innovative technologies to deal with environmental issues, and particularly promotes the development of products that conserve resources throughout the product lifecycle from manufacture to use and final disposal by the consumer, and the development, procurement and other use of renewable raw materials and raw materials that are not in competition with food resources. In addition to proactively publicizing these measures and other efforts for the environment, the Company promotes the establishment of its corporate brand as a company that contributes to “the wholehearted satisfaction and enrichment” of the lives of people globally in the domains of cleanliness, beauty and health.

(3) Issues for Global Growth

To realize global growth, the Company intends to build and strengthen an

integrated management system and nurture personnel to fully utilize and maximize the Kao Group's assets globally.

(4) Contribution to the Sustainability of World

The Company's basic stance is to contribute to the sustainability of the world through Yoki-Monozukuri. Making value offerings through new approaches to help resolve the social issues of the environment, health, the aging society and hygiene in particular will lead not only to social contributions but also to business expansion.

(For further details regarding worldwide trends and the Company's response, please see pages 12 to 19 of the "Highlights for FY 2009"
http://www.kao.com/jp/en/corp_ir/imgs/presentations_fy2009_01.pdf)

(For further details regarding contributions to sustainability, please see
<http://www.kao.co.jp/corp/sustainability-reports/en/>)

3. Mid-term business plan (Principle 3.1(i))

To realize the long-term targets set forth above, the Kao Group has developed, and disclosed in February 2013, the "Kao Group Mid-term Plan 2015 (K15)," specifying the Kao Group's desired state in 2015. The mid-term targets are:

1. Breaking previous records for net sales and profits
2. Achieving numerical management targets for FY2015
 - Consolidated net sales: 1.4 trillion yen
 - Consolidated operating income: 150 billion yen
 - Overseas sales ratio: 30% or more

Three growth strategies of K15 to achieve mid-term targets set forth above:

1. Expand the Consumer Products Business globally
2. Further reinforce the Fabric and Home Care Business, and accelerate profitable growth in the Beauty Care and Human Health Care Businesses
3. Reinforce the Chemical Business

(For further details regarding K15, please see pages 7 to 16 of the "A review the Kao Group's activities in FY2014, the progress of Kao Group Mid-term Plan 2015 and initiatives for the future":
http://www.kao.com/jp/en/corp_ir/imgs/shareholders_04.pdf.)

< Current condition >

In the financial results for FY2014, the targets of breaking previous records for net

sales and profits, achieving net sales of 1.4 trillion yen and achieving an overseas sales ratio of 30% or more have all been accomplished. In FY2015, the Kao Group will, therefore, work on maintaining an overseas sales ratio of 30% or more, as well as achieving the remaining target, consolidated operating income of 150 billion yen, by further increasing its sales.

(For further details regarding forecast of consolidated results for the FY 2015, please see http://www.kao.com/jp/en/corp_ir/imgs/results_fy2015_q3_all.pdf.)

4. Basic position and policy on corporate governance (Principle 3.1(ii), Principle 4.9)

(1) The Company's basic stance on measures related to corporate governance is to implement the necessary policies and fulfill its accountability by setting up and operating a management structure and internal control system in order to rapidly realize efficient, sound, fair and highly transparent management with the aim of achieving the above long-term targets and mid-term plan (hereafter, the "Business Strategies") and continuously increasing corporate value. This is positioned as one of its most important management tasks.

(2) Roles and Duties of the Board of Directors, etc. (Effective Utilization of the Diversity of Members of the Board of Directors, Audit & Supervisory Board Members and Executive Officers)

In order to properly carry out the formulation of the Business Strategies including the improvement of profitability and capital efficiency, their execution, and the supervision and audit of execution, it is extremely important to place persons with the diverse experience and knowledge, high level of expertise and insight necessary for these purposes in a well-balanced fashion as the Directors and Audit & Supervisory Board Members who attend the Board of Directors meetings and as the Management that lead execution. By doing so, the Company believes it can raise the level of management by enabling each to properly fulfill their respective roles and duties as follows:

1. The members of Management, who have diverse experience and knowledge regarding the operation of each of the Kao Group's businesses and divisions, conduct discussions based on their understanding of the business environment in which the Company operates and the strengths and issues of the Kao Group to create proposals for the Business Strategies. In the event that consideration from more diverse perspectives, including evaluation of risks, is appropriate when planning and otherwise dealing with Business Strategies, the members of Management strive to utilize external experts.

2. Inside Directors and Full-time Audit & Supervisory Board Members who are familiar with the status of the Kao Group's management and businesses, its strengths and issues, and other matters, and Outside Directors and Outside Audit & Supervisory Board Members with diverse experience and knowledge of business and other areas, a high level of expertise and insight, and a neutral, objective perspective deliberate from their diverse perspectives, including evaluating risks, at Board of Directors meetings and make decisions on proposed Business Strategies submitted by the Management.

3. The members of Management quickly and properly execute the Business Strategies utilizing their respective diverse experience and knowledge.

4. Each year, the members of Management ascertain changes in the business environment that forms the premises of the Business Strategies, consider the status of progress of the strategies, issues in their achievement and response to such issues, the necessity of changes to the strategies and other matters and report to the Board of Directors.

5. In response to the above report from the members of Management, the Outside Directors and Outside Audit & Supervisory Board Members through their diverse perspectives supervise and audit whether the Business Strategies have been executed properly and makes decisions on the necessity of changing the Business Strategies and other matters at the Board of Directors meetings.

(3) Effective Utilization of Independent Directors and Audit & Supervisory Board Members, etc. (Principle 4.10.1)

The Company uses a structure with the appropriate number of independent Outside Directors and Outside Audit & Supervisory Board Members who satisfy the "Standards for Independence of Outside Directors/Corporate Auditors of Kao Corporation" (hereafter, the "Standards for Independence") to provide a check on the status of deliberations of the Board of Directors from an objective perspective independent of the Company's Management so that the Company's management judgment is not biased toward the logic of persons inside the Company.

To conduct examinations from an objective perspective independent from the Management, the Committee for the Examination of the Nominees for the Members of the Board of Directors, which examines candidates for Director, including for President and Chief Executive Officer, and the Compensation Advisory Committee, which examines the compensation system and remuneration levels of Members of the Board of Directors and Executive Officers, both include

all independent Directors and independent Audit & Supervisory Board Members, Outside Directors and Outside Audit & Supervisory Board Members (hereafter, the “Independent Directors and Audit & Supervisory Board Members, etc.”).

(For further details regarding the Standards for Independence, please see http://www.kao.com/jp/en/corp_imgs/corp_info/governance_002.pdf.)

(For information concerning appointment of Independent Directors and Audit & Supervisory Board Members, etc., please see “Outside Directors’ Relationship with the Company (2)” in “Directors” below, as well as “Outside Audit & Supervisory Board Members’ Relationship with the Company (2)” in “Audit & Supervisory Board Members” below.)

(4) Non-executive Director as Chairperson of the Board of Directors (Principle 4.6)
To more thoroughly separate execution and supervision, the Company uses a structure in which a non-executive Director serves as Chairperson of the Board of Directors.

(5) Company with an Audit & Supervisory Board

The Company has chosen to be a company with an Audit & Supervisory Board for the following reasons.

1. In addition to Outside Directors that include people with management experience, Outside Audit & Supervisory Board Members that include lawyers, certified public accountants and people with academic experience further increase the diversity of the Board of Directors by expressing opinions with a high level of expertise and insight and are useful for proper deliberation and supervision and audit of execution.

(For the Company’s stance on nomination of Outside Directors and Outside Audit & Supervisory Board Members, please see “7. Stance on Balance among Knowledge, Experience and Skills, and on Diversity and Size of the Board of Directors” below.)

2. Unlike in companies with a nominating committee and other committees or an audit committee, Audit & Supervisory Board Members with an independent perspective who do not concurrently serve as Directors enable objective audits of the execution of duties because they do not have the right to vote at Board of Directors meetings. In particular, independent Outside Audit & Supervisory Board Members enable audits from a perspective that is more independent from the Management.

3. Ability of Full-time Audit & Supervisory Board Members to Collect Necessary Information for Audits

The Company ensures cooperation on information collected by the Audit & Supervisory Board Members so that it is reported to the Outside Directors as necessary, in addition to audit reports to the Board of Directors.

(6) Promoting communications with shareholders

In order to improve its corporate value, the Company considers it important to communicate with shareholders and other stakeholders, thereby having better understanding of mutual views and positions, and taking appropriate measures based on the same. The Company will develop a structure to promote constructive communications with shareholders, and create opportunities to communicate with institutional investors and individual shareholders. In communication with shareholders, the members of Management participate to the extent possible in order to reflect the opinions of the shareholders in management properly. Pertaining to information of the Kao Group which is the basis for communication with stakeholders, the Company established Disclosure Guidelines, and is committed to timely, accurate and fair disclosure of information and proactively discloses information of social relevance as well as information which it is obligated to release publicly.

(For further details regarding IR Related Activities, etc., please see “14. Policy Concerning Measures and Organizational Structures to Promote Constructive Dialogue with Shareholders” and “2. IR Activities” in “III Implementation of Measures for Shareholders and Other Stakeholders” below.)

(For further details regarding Disclosure Guidelines, please see http://www.kao.com/jp/en/corp_ir/disclosure.html)

(7) Capital Cost-conscious Management

The Company uses EVA® (Economic Value Added, defined as net operating profit after tax less a charge for the cost of capital employed in the business) as a management indicator, and strives to raise corporate value by increasing EVA. The Company conducts capital cost-conscious management by using EVA as a criterion for investment decisions and other matters. To thoroughly implement this management, the Company sets EVA targets each year and uses a compensation system in which the degree of attainment of EVA, along with sales and income targets, is reflected in performance-linked bonuses for Executive Officers. Increases in EVA will also lead to improvement in indicators related to capital efficiency such as ROE.

(For the use of cash flow and shareholder returns, please see page 27 of the “Highlights for FY 2014”

http://www.kao.com/jp/en/corp_ir/imgs/presentations_fy2014_01.pdf)

The Company will continue to conduct verification each year based on requests from shareholders and other stakeholders, company trends and other factors, and implement measures necessary to improve corporate governance as appropriate.

5. Scope of Matters Delegated to the Management (Principle 4.1.1)

The Company has established the regulations of the Board of Directors and deliberation and reporting standards for the Board of Directors and the Management Committee to clearly set forth the matters to be deliberated on and reported at Board of Directors meetings and the matters to be delegated to the Management Committee, which is the highest executive decision-making body.

As set forth in 4-(2) above, the purpose of these regulations and standards is to realize the separation of supervision and execution by mainly having the Board of Directors conduct deliberations from various perspectives, including evaluation of risks, and deciding on the medium-to-long-term direction of management in the Business Strategies and, regarding the execution of the Business Strategies, delegate wide-ranging authority to the Management Committee, which is mainly composed of members with the position of Managing Executive Officer or higher who have abundant experience in business execution as persons responsible for core businesses or divisions, to accelerate decision-making and management. The Management Committee, in turn, is expected to conduct proper supervision by making clear the matters to be reported to the Board of Directors.

For example, the following matters have been set forth as requiring deliberations by the Board of Directors.

- Direction of management, etc.: Basic management policies, basic business strategies, key investment strategies, mid-to-long-term plans and annual budgets
- Nomination or dismissal of key employees: Nomination or dismissal of Executive Officers, key persons in charge of organizations for which such Executive Officers are responsible, and key chairpersons of companywide committees in charge of corporate governance, compliance or other matters

Purchases of assets through merger and acquisition, investment or other means and large debts including borrowings and the issuance of corporate bonds are decided by the Management Committee, in principle. However, among these matters, extremely important items or items involving large outlays are submitted

to the Board of Directors.

6. Policy on Nomination of Director and Audit & Supervisory Board Member Candidates and Senior Management (Principle 3.1(iv))

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 that 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.

Senior Management are nominated with emphasis on their understanding of the business environment and of the status of the Kao Group's businesses and management in order to deal with such environment necessary to plan the Business Strategies, and on their experience and ability to display strong leadership in quickly and properly executing the Business Strategies set by the Board of Directors.

7. Stance on Balance among Knowledge, Experience and Skills, and on Diversity and Size of the Board of Directors (Principle 4.11.1, Principle 2.4)

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 a high level of expertise and insight from their experience as an lawyers, certified public accountant, academic or other profession, and their legal qualification in terms of being outside the Company and their 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 women, non-Japanese and others contribute to the promotion of business, global expansion and proper supervision and auditing, and promotes the appointment of such diverse personnel as Members of the Board of Directors, Audit & Supervisory Board Members and Executive Officers.

(For further details of the active participation of women, please see "Others Measures" in "Other" in "3. Measures to Ensure Due Respect for Stakeholders" in

“III Implementation of Measures for Shareholders and Other Stakeholders” below.)

8. Procedures for the Nomination of Director and Audit & Supervisory Board Member Candidates and the Appointment of Senior Management (Principle 3.1(iv))

To objectively confirm that all Director candidates, including candidates for the Director who will become President and Chief Executive Officer, conform with the above policy and stance, the Company has a Committee for the Examination of the Nominees for the Members of the Board of Directors, composed exclusively of all Independent Directors and Audit & Supervisory Board Members, etc. This committee also deliberates as necessary on the above nomination policies and other related matters.

With regard to nominees for Audit & Supervisory Board Members, the Audit & Supervisory Board, which includes three (3) independent Outside Audit & Supervisory Board Members as its members, examines 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. Furthermore, 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.

With regard to Senior Management, the titles and responsibilities of all nominees of Executive Officers are reported to the Committee for the Examination of Nominees for Members of the Board of Directors and decisions are subsequently made by the Board of Directors.

(For further information concerning the Committee for the Examination of Nominees for Members of the Board of Directors, please see, in “Supplementary Explanation” in “Directors” in “1. Organizational Composition and Operation” in “II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management” below.)

9. Explanations with Respect to Individual Nominations and Appointments of Directors, Audit & Supervisory Board Members and Senior Management, and Status of Concurrent Duties of Outside Directors and Outside Audit & Supervisory Board Members (Principle 3.1(v), Principle 4.11.2)

In line with the above nomination policy, the Company has nominated and

appointed its current Directors, Audit & Supervisory Board Members and Senior Management as follows.

Inside Directors have abundant experience and knowledge of R&D, marketing, sales and other central functions of Yoki-Monozukuri, respectively, including their global operation. In addition, they are familiar with the global competitive environment in which the Company operates, stakeholders' expectations of the Company including environmental preservation and other issues, and the corresponding strengths and issues, etc. of the Company. They are nominated and appointed with the expectation that they will utilize this experience and knowledge in the planning and deliberation of the Business Strategies and in the supervision of their execution at the Board of Directors.

Outside Directors have abundant experience and a high level of insight as the top management of a manufacturing company, the top management of a financial institution, and a management consultant, respectively, including global operations, and are nominated and appointed with the expectation that they will utilize such experience and insight in deliberation, etc., of the Business Strategies.

Full-time Audit & Supervisory Board Members are nominated and appointed with the expectation that they will utilize their experience in R&D and the operation of business or other areas and their overseas experience, etc., in audits and will conduct audits independent of persons who execute business.

Outside Audit & Supervisory Board Members are nominated and appointed with the expectation that they will conduct audits from an independent standpoint utilizing perspectives based on their high level of expertise as a certified public accountant, a university professor and a lawyer, respectively, and their abundant auditing experience and knowledge.

Every Audit & Supervisory Board Member is nominated with the expectation that he/she will utilize his/her experience, qualification and expertise in deliberation of Business Strategies and audit of execution.

For Outside Directors and Outside Audit & Supervisory Board Members, the Company will confirm that they would be able to devote sufficient time and effort to appropriately fulfill their respective roles and responsibilities despite their concurrent positions.

(For the reasons for nomination of each of the Outside Directors and Outside Audit & Supervisory Board Members, please see, in "II. Business Administration

Organization for Managerial Decision-Making, Execution and Supervision, and Other Corporate Governance Structure” below, the section entitled “1.

Organization Structure, Organizational Management, etc.,” more specifically, the subsections “Relationship with the Company (2)” in “Matters Related to Members of the Board of Directors” and “Relationship with the Company (2)” in “Matters Related to Audit & Supervisory Board Members.”

(For the status of concurrent positions held by Outside Directors and Outside Audit & Supervisory Board Members, please see page pages 7 to 12 of the “Proxy Statement” and page 10 of “Business Report” of “Convocation Notice of the 109th Annual General Meeting of Shareholders” at http://www.kao.com/jp/en/corp_ir/imgs/shareholders_01.pdf.)

10. Details of Current Efforts to Effectively Use Independent Directors and Audit & Supervisory Board Members, etc.

(1) Status of Appointment of Independent Directors and Audit & Supervisory Board Members, etc.

Three of the six Directors are Outside Directors, of whom two satisfy the Standards for Independence. Three of the five Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members, all of whom satisfy the Standards for Independence.

(2) Chairperson of the Board of Directors (Principle 4.6)

In the current structure, an independent Outside Director acts as Chairperson of the Board of Directors as a measure to further increase the neutrality and independence of the Board of Directors.

(3) Communication and Cooperation among Independent Directors, Audit & Supervisory Board Members and Management (Principle 4.8.2)

The Chairperson of the Board of Directors takes the role of promoting communication and cooperation with members of Management and Audit & Supervisory Board Members. In addition, all the Audit & Supervisory Board Members, including the independent Outside Audit & Supervisory Board Members, and the Representative Directors hold meetings to exchange opinions multiple times during the year.

(4) Information Exchange and Shared Awareness of Independent Outside Directors, etc. (Principle 4.8.1)

To promote discussions from diverse perspectives, independent Outside Directors hold meetings exclusively for Outside Directors, including non-independent

Outside Directors, on their own initiative to exchange information and share awareness of issues related to the Company's management and the activities of the Board of Directors, development of future Senior Management, and other matters. To promote free and easy exchange of opinions among the Outside Directors, spontaneously convened meetings are considered more appropriate than regularly scheduled meetings.

11. Analysis and evaluation of effectiveness of the Board of Directors taken as a whole and summary of the results thereof

On at least an annual basis, the effectiveness of the Board of Directors is evaluated by all of the Outside Directors and Outside Audit & Supervisory Board Members at meetings of the Board of Directors, and discussions are held based on such evaluation, by those present at the meeting, in order to make improvements aimed at enhancing the effectiveness of the Board of Directors.

At meetings of the Board of Directors held in May and June 2015, each of the three Outside Directors and the three Outside Audit & Supervisory Board Members presented their opinions on the activities of the Board of Directors including the following four perspectives particularly expected of boards of directors in the Corporate Governance Code.

- (1) Discussion of the broad direction of corporate strategy (General Principle 4)
- (2) Establishing an environment where appropriate risk-taking by the senior management is supported (General Principle 4)
- (3) Carrying out effective oversight of directors and the management from an independent and objective standpoint (General Principle 4)
- (4) Constructive communication with shareholders and investors (General Principles 3 and 5)

Based on these opinions, the Board of Directors, with the participation of Audit & Supervisory Board Members, conducted a self-evaluation of its effectiveness, centered on these four perspectives. The following is a summary.

(1) After explicitly sharing the vision of the kind of company Kao intends to be, medium-to-long-term management strategies are being discussed while setting specific numerical targets. The Board of Directors, with the participation of Audit & Supervisory Board Members, shares annual themes for deliberation, and at the start of the Board of Directors meeting each month, the President and Chief Executive Officer and other representative directors share immediate and medium-to-long-term matters of concern in execution to appropriately link recent

actions with the broad direction. The Board of Directors should work further to constantly enhance this point.

(2) In addition to the enhanced compliance organization, evaluations by using EVA® are effectively being utilized, one of the management indicators, in deliberations on investment items. Outside Directors function in a manner that enables the forward-looking expression of judgments on the pros and cons of making investments, while confirming preparations for taking on risk.

(3) An independent Outside Director who is a non-executive Director acts as Chairman and conducts the proceedings, and lively discussions are undertaken that transcend the boundaries separating internal and external perspectives. Inside Directors are aware of and strive to incorporate these discussions. As a result, supervision of important points is conducted based on objective opinions that arise from the diverse experiences of Outside Directors and Outside Audit & Supervisory Board Members.

(4) The Management, including the President and Chief Executive Officer, proactively conducts IR activities, and the Board of Directors receives feedback on the details of such activities, which enables interactive communication with investors. Constructive communication between shareholders and officers is conducted through question and answer sessions at the General Meeting of Shareholders and shareholder visits to Kao Group facilities.

(5) Medium-to-long-term growth strategies, strategies for global expansion and personnel strategies are future issues for the Board of Directors, and it was proposed that, above all, the Board of Directors spare more time in the future for discussion of these matters.

12. Measures for Directors and Audit & Supervisory Board Members to improve understanding and knowledge required to fulfill their roles and duties (Principle 4.14.2 “Training Policy for Directors and Audit & Supervisory Board Members)

The Company provides Directors and Audit & Supervisory Board Members with opportunities to improve their understanding of the Company’s business and business environment and knowledge about corporate governance, etc and pays expenses which are required to fulfill their respective roles and duties. In particular, the Company provides Inside Directors and Full-time Audit & Supervisory Board Members with basic training as top management and auditors, knowledge regarding the Companies Act, corporate governance and related issues, useful information for observance of laws and regulations and for management, and other

matters. Also, to deepen the understanding of Outside Directors and Outside Audit & Supervisory Board Members of the details and current status and other matters regarding the Kao Group's business strategies and businesses, the Company explains these matters at the time of inauguration and thereafter conducts tours of factories and business sites, explanations by the relevant officer and other measures as necessary.

< Details of Current Efforts >

- As future candidates for Director or Audit & Supervisory Board Member, participation by Executive Officers in training programs held by external institutions to acquire the skills and knowledge and attain the deep discernment required of top management
- Explanation of the Companies Act, corporate governance and related issues upon inauguration
- Explanation of the Business Strategies, details of businesses, operating structure and other matters upon inauguration
- Visits to main factories and major business sites, etc.
- Lectures to foster well-rounded character and insight as a top management
- Lectures on the Companies Act, corporate governance and other matters by experts and lectures on useful information regarding management by top management of other companies and knowledgeable persons
- Briefings on compliance, including prevention of insider trading

13. Policy and Procedures for Determining Remuneration for Members of the Board of Directors and Senior Management

In order to ensure remuneration for Directors and Officers is an effective incentive, etc. for achieving business plans, the Company's fundamental position on remuneration of Members of the Board of Directors and Executive Officers is as follows: (1) a compensation system which attracts a diverse range of excellent candidates in order to establish and improve competitive advantages; (2) compensation which promotes continuous improvement of corporate value and shares interests in common with shareholders; and (3) a highly objective and transparent decision-making process regarding compensation.

The Company has a Compensation Advisory Committee composed of all the Independent Directors and Audit & Supervisory Board Members, etc. and all the Representative Directors to examine and evaluate whether the compensation system and remuneration levels for Directors and Executive Officers adequately match the abovementioned basic stance. The Company also deliberates as necessary on the abovementioned basic stance.

In addition, the Company will consider the appropriate global remuneration system for officer, managers and employees to promote global business expansion.

(For further information, please see “Disclosed Details of Policy for Determining Amount and Calculation Method of Remuneration” in “Remuneration for Members of the Board of Directors” in “II. Business Administration Organization for Managerial Decision-Making, Execution and Supervision, and Other Corporate Governance Structure” below.)

14. Policy Concerning Measures and Organizational Structures to Promote Constructive Dialogue with Shareholders (Principle 5.1)

The Company considers its shareholders and investors to be important stakeholders. It emphasizes constructive dialogue to raise corporate value, and considers it important to deepen mutual understanding of stances and standpoints and to adopt proper responses based on such understanding.

To contribute to realizing constructive dialogue with shareholders and investors to raise corporate value, the Company proactively discloses socially useful information about the Kao Group in addition to disclosures required by law. The Company established rules on information disclosure and the prevention of insider trading, conducts information disclosures fairly without selective disclosure to specified persons, clarified the obligation to maintain confidentiality of insider information, as well as regularly conducts education for their thorough implementation.

An investor relations division is in charge of measures for dialogue with institutional investors, and in addition to routine meetings with institutional investors inside and outside Japan, it conducts briefings and other presentations on summaries and the progress of the Business Strategies, the status of operating results and businesses, shareholder returns and other matters. The President and Chief Executive Officer and Management participate to the extent possible in order to have opportunities for direct conversations with institutional investors that enable dialogue for increasing corporate value from a long-term perspective, and to make it easier to reflect the results of the dialogues in management.

The content of questions and opinions received from institutional investors and other matters from the abovementioned briefings and other presentations are reported as required at meetings of the Board of Directors and of the Executive Officers for utilization in the future management of the Company.

A shareholder relations division is primarily in charge of measures for dialogue with individual shareholders, and conducts tours of factories and facilities that introduce details of the Company's businesses so that individual investors understand such details and hold the Company's stock with a longer-term perspective. Moreover, when conducting these initiatives, the members of Management participate to the extent possible in order to have opportunities for dialogue with shareholders. In addition, the Company regards the operation of the General Meeting of Shareholders as an opportunity for dialogue with its valued and important shareholders, and secures sufficient time for questions, among other measures.

In the future, in addition to explaining financial information, the Company intends to further enhance its explanation of non-financial information including its stance on corporate governance. To promote constructive dialogue with shareholders, relevant divisions including the investor relations division, accounting and finance division, legal and compliance division, and sustainability promotion division will cooperate to consider and implement methods for explaining non-financial information such as publication on the Company's website and holding presentations, an organizational structure for dealing with dialogue with shareholders and other matters. Managers in charge of the investor relations division, the shareholder relations division and the corporate communications division, which integrates public relations, sustainability and other areas, will work together to integrate and promote these activities.

(For further details regarding IR Related Activities, etc., please see, in "III. Status of Measures Taken in Respect to Shareholders and Other Stakeholders" below, the section entitled "2. Status of IR Related Activities.")

15. Policies for Cross-Shareholdings and Standards for Exercise of Voting Rights (Principle 1.4)

The Kao Group holds the shares of other listed companies only in cases where it considers such shareholdings, including the number of shares held, to be reasonable in consideration of their necessity in terms of business activities such as maintaining and strengthening business alliances and transactions, trends in the issuing companies' stock, and other matters. These cross-shareholdings are subject to the impact of trends in stock markets and the business environment in which the Company operates. However, each year the Board of Directors ascertains the reasonableness of cross-shareholdings and reviews their continuance and the number of shares held.

The Company exercises the voting rights of cross-shareholdings after comprehensively determining whether the proposals contribute to the establishment of a proper corporate governance system and to increasing the medium-to-long-term corporate value of the issuing company, as well as their impact on the Company. The Company engages in dialogue with the issuing company on the details of the proposals and other matters as necessary.

16. Procedures for Approval of Related Party Transactions (Principle 1.7)

To obligate Members of the Board of Directors, Audit & Supervisory Board Members, Executive Officers and employees of the Kao Group to act with priority on the interests of the Kao Group, the Company has established the “Kao Guidelines on Preventing Conflicts of Interest” after their approval by the Board of Directors. In cases where Directors and Officers, managers and employees of the Kao Group engage in transactions with the Kao Group on behalf of themselves or of a third party, these guidelines provide that a notification be submitted to the Compliance Committee Secretariat and that, depending on the details of the notification, the Compliance Committee Secretariat shall require notification of or approval from the Board of Directors, the Management Committee or the Compliance Committee Secretariat Meeting.

In addition to these guidelines, Directors obtain the approval of the Board of Directors in cases of self-dealing or transactions involving conflicts of interest pursuant to the Companies Act.

Because the Company has no major shareholders who hold 10% of more of its stock, the Kao Group has not established procedures for approval of transactions with major shareholders.

2. Capital Structure

Foreign Shareholding Ratio: More than 30%

[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	29,708,000	5.89
Japan Trustee Services Bank, Ltd. (Trust Account)	28,695,200	5.69
JP Morgan Chase Bank 380055	19,773,482	3.92

State Street Bank and Trust Company 505223	19,206,090	3.81
Tokio Marine & Nichido Fire Insurance Co., Ltd.	8,442,074	1.68
State Street Bank and Trust Company	7,712,613	1.53
State Street Bank West Client-Treaty 505234	7,442,899	1.48
State Street Bank and Trust Company 505225	7,025,728	1.39
The Bank of New York Mellon SA/NV 10	6,962,775	1.38
Nippon Life Insurance Company	6,691,215	1.33

Controlling Shareholders (except for Parent Company)	None
Parent Company	None

Supplementary Information

1. BlackRock Japan Co., Ltd. and 6 other companies submitted a copy of their Large Shareholdings Report dated September 4, 2014 that stated their shareholdings as of August 29, 2014 were as shown below. However, these shareholdings were not included in the above list of major shareholders because Kao Corporation could not confirm the number of beneficial shares held as of June 30, 2015.

[Number of shares held (thousands) / Percentage of shares held to the total number of outstanding shares]

BlackRock Japan Co., Ltd. and 6 other companies / 25,864 / 5.01

2. MFS Investment Management K.K. and another company submitted a copy of their Large Shareholdings Report dated October 20, 2014 that stated their shareholdings as of October 15, 2014 were as shown below. However, these shareholdings were not included in the above list of major shareholders because Kao Corporation could not confirm the number of beneficial shares held as of June 30, 2015.

[Number of shares held (thousands) / Percentage of shares held to the total number of outstanding shares]

MFS Investment Management K.K. and another company / 25,872 / 5.01

3. Sumitomo Mitsui Trust Bank, Limited and 2 other companies submitted a copy of their Change Report dated February 5, 2015 that stated their shareholdings as of January 30, 2015 were as shown below. However, these shareholdings were not included in the above list of major shareholders because Kao Corporation could not confirm the number of beneficial shares held as of June 30, 2015.

[Number of shares held (thousands) / Percentage of shares held to the total

number of outstanding shares]

Sumitomo Mitsui Trust Bank, Limited and 2 other companies / 30,810 / 6.11

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange, First Section
Fiscal Year-End	December 31
Type of Business	Chemicals
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	More than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 50 to less than 100

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

None

5. Other Special Circumstances which may have Material Impact on Corporate Governance

None

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Board Members
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Details of the information about Audit & Supervisory Board Members are reported on the Japan Audit & Supervisory Board Members Association's website.

http://www.kansa.or.jp/support/el009_130711_2.pdf

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	0 (Not stipulated)
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Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Outside Director
Number of Directors	6
Number of Outside Directors	Yes
Number of Independent Directors	2

Outside Directors' Relationship with the Company (1)

Name	Attributes	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Sonosuke Kadonaga	From another company											
Toru Nagashima	From another company								△		△	
Masayuki Oku	From another company					△						

*Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past;

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which and the Company outside directors/Audit & Supervisory Board Members are mutually appointed (the director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others

Outside Directors' Relationship with the Company (2)
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Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Sonosuke Kadonaga	○	—	<p>(i) The Company expects that Mr. Sonosuke Kadonaga will effectively use his considerable experience and views about management gleaned from being a management consultant.</p> <p>(ii) The Company determined that none of the requirements for prior discussion as provided in Section III.5(3)2 of the “Guidelines Concerning Listed Company Compliance, etc.” of the TSE applies to Mr. Sonosuke Kadonaga, and also that Mr. Sonosuke Kadonaga has the necessary independence based on the “Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation” established by the Company in line with the above guidelines.</p>
Toru Nagashima	○	Mr. Toru Nagashima previously had executive authority at Teijin Limited but after assuming office as Chairman of the Board of Teijin Limited in June 2008, he has been principally	(i) The Company expects that Mr. Toru Nagashima will effectively use his considerable experience and views about management gleaned from being a manager of a manufacturing

		<p>involved in the execution of external affairs for, and has not been directly involved in the execution of internal affairs for Teijin Limited. Although the Company engages in transactions with Teijin Limited in terms of purchasing goods, the amounts involved in such transactions account for less than 1% of the Company's net sales and Teijin Limited's net sales for FY 2014, respectively. Mr. Toru Nagashima served as Vice Chairman of the Japan Association of Corporate Executives (JACE), but he resigned in April 2014. Although the Company engages in transactions with the JACE in terms of the payment of membership fees, the amount involved in such transactions accounts for less than 1% of the Company's net sales and the JACE's current income for FY2014, respectively. Although the Company paid a donation to the JACE in FY2014, the amount accounts for less than 0.1% of the Company's net sales and the JACE's current income for FY2014, respectively. Mr. Toru Nagashima served as Chairman of the Japan</p>	<p>company. (ii) The Company determined that none of the requirements for prior discussion as provided in Section III.5(3)2 of the "Guidelines Concerning Listed Company Compliance, etc." of the TSE applies to Mr. Toru Nagashima, and also that Mr. Toru Nagashima has the necessary independence based on the "Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation" established by the Company in line with the above guidelines.</p>
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		<p>Overseas Enterprises Association (JOEA), but he resigned in June 2013. Although the Company engages in transactions with the JOEA in terms of the payment of membership fees, the amounts involved in such transactions account for less than 0.1% of the Company's net sales and less than 2% of the JOEA's current income for FY2014, respectively. Furthermore, Mr. Toru Nagashima served as Chairman of the Japan Chemical Fibers Association (JCFA), but he resigned in July 2007. Although the Company engages in transactions with the JCFA in terms of the purchase of books, the amounts involved in such transactions account for less than 0.1% of the Company's net sales and less than 0.1% of the JCFA's gross income for FY2014, respectively.</p>	
Masayuki Oku		<p>Mr. Masayuki Oku had executive authority at Sumitomo Mitsui Banking Corporation (SMBC,) but no longer has such authority since April 2011 in SMBC. The Company conducts regular bank transactions with SMBC and the</p>	<p>The Company expects that Mr. Masayuki Oku will effectively use his considerable experience and views about management gleaned from being a manager of a financial institution.</p>

		Company has loans of 20 billion yen from SMBC.	
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Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Committee's Name, Composition, and Attributes of Chairperson
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	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Committee for the Examination of the Nominees for the Members of the Board of Directors	Compensation Advisory Committee
All Committee Members	6	9
Full-time Members	0	0
Inside Directors	0	3
Outside Directors	3	3
Outside Experts	0	0
Other	3	3
Chairperson	Outside Director	Outside Director

Supplementary Explanation

The Company has established the Committee for the Examination of the Nominees for the Members of the Board of Directors and the Compensation Advisory Committee which fulfill functions similar to the nominating committee and compensation committee of a "company with committees."

The Committee for the Examination of the Nominees for the Members of the Board of Directors consists exclusively of all Outside Directors and all Outside Audit & Supervisory Board Members (five (5) out of six (6) are male and one (1) is female,) to absorb independent and objective perspective, and the chairman of the Committee is chosen by the members of the Committee. This committee examines the nominees for the Members of the Board of Directors including President and Chief Executive Officer prior to the election or re-election of the Members of the Board of Directors, and submits its evaluation of the nominees' qualifications to the Board of Directors. The Chairman of the Board of Directors and the President and CEO contribute by submitting necessary and sufficient documents for a thorough examination (information on the nominees and the new management including the respective duties of the members of the Board of Directors and

Executive Officers) to the Committee members in advance of the meeting of the Committee.

The Compensation Advisory Committee consists of the Chairman of the Board of Directors (the Chairman of the Board of Directors has been absent from the meeting of the Board of Directors held in March 28, 2014) and all Representative Directors to deepen the members' understanding of the Company's compensation system and responsibility of each position, and all Outside Directors and all Outside Audit & Supervisory Members to absorb independent and objective perspective (eight (8) out of nine (9) are male and one (1) is female,) and the chairman of the Committee is chosen by the members of the Committee. This Committee meets at least once a year during the remuneration revision period to examine and evaluate the appropriateness of the remuneration system and the level of remunerations for the members of the Board of Directors and Executive Officers after considering the input from committee members. The results of the examination and evaluation are to be reported at a meeting of the Board of Directors. A meeting of this Committee was held with the attendance of all Committee members in February 2015, and the results of the examination which show that the current remuneration system and the level of remuneration for the members of the Board of Directors and the Executive Officers presently in office were considered appropriate, were reported at a meeting of the Board of Directors held in March 2015.

[Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	0 (Not stipulated)
Number of Audit & Supervisory Board Members	5

Cooperation among Audit & Supervisory Board Members, Accounting Auditors and Internal Audit Departments

☐ Cooperation between Audit & Supervisory Board Members and the Accounting Auditor

At the start of the accounting audit for each fiscal year, the Audit & Supervisory Board Members receive from the Accounting Auditor an audit plan describing

matters such as the fundamental audit policy, the major items and sites to be audited and the main contents of the audit. The Audit & Supervisory Board Members also exchange views with the Accounting Auditor regarding the contents of the audit plan.

In each quarterly settlement of accounts, the Audit & Supervisory Board Members receive from the Accounting Auditor, in the course of the quarterly audit conducted by the Accounting Auditor, reports on the main content of the audit and whether any material problem has been found in the audit so far conducted, and also exchange views with the Accounting Auditor. At the time when the Accounting Auditor submits a quarterly audit report to the Board of Directors of the Company, a quarterly audit report meeting is held, where the quarterly summary of the audit results are reported to the Audit & Supervisory Board Members by the Accounting Auditor.

Similarly, in the settlement of accounts for each fiscal year, the Audit & Supervisory Board Members have opportunities to mutually discuss with the Accounting Auditor the contents of their audits, in the course of the audit conducted by the Accounting Auditor. Furthermore, the Audit & Supervisory Board Members receive an audit report from the Accounting Auditor within the time frame prescribed by law, as well as a summary of the audit results, which are later used by the Board of Audit & Supervisory Board Members in preparing its audit report. The Audit & Supervisory Board Members also contact the Accounting Auditor whenever necessary to cooperate in forming their respective audit opinions.

☐ Cooperation between Audit & Supervisory Board Members and Internal Auditing Divisions

Audit & Supervisory Board Members regularly meet, on a quarterly or semiannual basis, with Global Internal Audit and the Legal and Compliance Department, as well as the internal auditing divisions of the Company concerned with environment and safety, product quality management, risk management, and other areas, to hear about their activities and to exchange views. When necessary, Audit & Supervisory Board Members and these divisions provide each other with the information they have, which serves to deepen the cooperation and raise the levels of their respective audit activities.

Appointment of Outside Audit & Supervisory Board Members	Appointed
Number of Outside Audit & Supervisory Board	3

Members	
Number of Independent Audit & Supervisory Board Members	3

Outside Audit & Supervisory Board Members' Relationship with the Company (1)
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Name	Attribute	Relationship with the Company (*)												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Teruo Suzuki	CPA													
Norio Igarashi	Professor										△			
Yumiko Waseda	Attorney-at-law										△			

*Categories for "Relationship with the Company"

* "○" when the Audit & Supervisory Board Member presently falls or has recently fallen under the category;

"△" when the Audit & Supervisory Board Member fell under the category in the past;

* "●" when a close relative of the Audit & Supervisory Board Member presently falls or has recently fallen under the category;

"▲" when a close relative of the Audit & Supervisory Board Member fell under the category in the past

(tosho hinagata)

- Executive of the Company or its subsidiary
- Non-executive director or accounting advisor of the Company or its subsidiaries
- Non-executive director or executive of a parent company of the Company
- An Audit & Supervisory Board Member of a parent company of the Company
- Executive of a fellow subsidiary company of the Company
- A party whose major client or supplier is the Company or an executive thereof
- Major client or supplier of the Company or an executive thereof
- Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an Audit & Supervisory Board Member
- Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board Member himself/herself only)
- Executive of a company, between which and the Company outside directors/Audit & Supervisory Board Member are mutually appointed (the an Audit & Supervisory Board Member himself/herself only)

I. Executive of a company or organization that receives a donation from the Company (the an Audit & Supervisory Board Member himself/herself only)

m. Others

Outside Audit & Supervisory Board Members' Relationship with the Company (2)
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Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons of Appointment
Teruo Suzuki	○	—	<p>(i) The Company expects that Mr. Teruo Suzuki will effectively use, in the audit of the Company, his professional expertise as a certified public accountant and his considerable views about management.</p> <p>(ii) The Company determined that none of the requirements for prior discussion as provided in Section III.5(3)2 of the “Guidelines Concerning Listed Company Compliance, etc.” of the TSE applies to Mr. Teruo Suzuki, and also that Mr. Teruo Suzuki has the necessary independence based on the “Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation” established by the Company in line with the above guidelines.</p>
Norio Igarashi	○	Mr. Norio Igarashi had executive authority at Pricewaterhouse Coopers Aarata, but no longer has such authority	<p>(i) The Company expects that Mr. Norio Igarashi will effectively use, in the audit of the Company, his professional expertise as a certified public accountant and professor, and his considerable views about management.</p> <p>(ii) The Company determined that</p>

		<p>since April 2007. Although the Company engages in transactions with Pricewaterhouse Coopers Aarata in terms of the entrustment of services, the amount involved in the Company's transactions with Pricewaterhouse Coopers Aarata accounts for less than 0.1% of both the Company's net sales and Pricewaterhouse Coopers Aarata's gross income for FY 2014, respectively.</p>	<p>none of the requirements for prior discussion as provided in Section III.5(3)2 of the "Guidelines Concerning Listed Company Compliance, etc." of the TSE applies to Mr. Norio Igarashi, and also that Mr. Norio Igarashi has the necessary independence based on the "Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation" established by the Company in line with the above guidelines.</p>
Yumiko Waseda	○	<p>Ms. Yumiko Waseda belonged to Mori Hamada & Matsumoto (MHM), but resigned from the office in March 2013. Although the Company engages in transactions with MHM, such as in terms of legal</p>	<p>(i) The Company expects that Ms. Yumiko Waseda will effectively use, in the audit of the Company, her professional expertise as an attorney-at-law. (ii) The Company determined that none of the requirements for prior discussion as provided in Section III.5(3)2 of the "Guidelines Concerning Listed Company Compliance, etc." of the TSE applies to Ms. Yumiko Waseda, and also that Ms. Yumiko Waseda has the necessary independence based on the "Standards for</p>

		consultation, the amount involved in such transactions accounts for less than 0.1% of the Company's net sales and MHM's net sales for FY 2014, respectively.	Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation" established by the Company in line with the above guidelines.
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[Independent Directors/Audit & Supervisory Board Members]

Number of Independent Directors/Audit & Supervisory Board Members	5
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Matters relating to Independent Directors/Audit & Supervisory Board Members

2 Outside Directors and 3 Audit & Supervisory Board Members of the Company meet qualification for Independence and the Company has reported these members to the TSE as Independent Directors/Audit & Supervisory Board Members.

☐ The Company's Policy for Independence of Outside Directors/Outside Audit & Supervisory Board Members

The Company has adopted at a meeting of its Board of Directors the "Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation", with the unanimous consent of its Audit & Supervisory Board Members. The purpose of establishing these Standards is to provide clear criteria for an outside director/Audit & Supervisory Board Member to qualify as an independent director/Audit & Supervisory Board Member.

Please read these Standards on the Company's website.

http://www.kao.com/jp/en/corp_imgs/corp_info/governance_002.pdf

[Incentives]

Incentive Policies for Directors	Performance-linked Remuneration / Stock Options
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Supplementary Explanation

It is described in following “Disclosed Details of Policy for Determining Amount and Calculation Method of Remuneration” in Remuneration for Members of the Board of Directors.

Recipients of Stock Options	Inside Directors, Outside Directors and Executive Officers
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Supplementary Explanation

The Company grants stock options to applicable stock option grantees for the purpose of further increasing the Company’s corporate value by aligning the interests of the stock option grantees with those of the shareholders of the Company. The Company selects as stock option grantees members of the Board of Directors and Executive Officers, who are in charge of management and conform to this purpose.

[Director Remuneration]

Disclosure of Individual Directors’ Remuneration	No Individual Disclosure
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Supplementary Explanation

The remuneration, etc., paid to the members of the Board of Directors for FY2014 (ended December 31, 2014) is as follows:

Measures taken in respect to remuneration, etc., to the members of the Board of Directors include: implementing a stock option plan for the purpose of aligning the interests of the members of the Board of Directors with those of the shareholders of the Company; clarifying the link between bonus amounts and corporate performance, based on EVA and other factors

Aggregate amount of remuneration, etc. paid to members of the Board of Directors for FY2014:

To 13 members of the Board of Directors:
238 million yen (including 42 million yen paid to 4 Outside Directors)

Notes

1. The aggregate amount of remuneration, etc., paid to members of the Board of Directors includes the following amounts:

- (i) The amount to be paid as the bonuses for this fiscal year to Members of the Board

43 million yen to 3 members of the Board of Directors

- (ii) The amount of remuneration, etc., as stock acquisition rights allotted as stock options, based on the resolution of the meeting of the Board of Directors held on April 25, 2014.

46 million yen to 6 members of the Board of Directors (including 15 million yen paid to 3 Outside Directors)

2. The maximum aggregate amount of remuneration, etc., to be paid to the members of the Board of Directors is as follows:

- (i) An annual amount of 630 million yen (resolved at the 101st Annual General Meeting of Shareholders held on June 28, 2007)

This amount includes 30 million yen for Outside Directors and does not include remuneration to be paid to members of the Board of Directors who also serve as employees of the Company, for their services as employees.

- (ii) An annual amount of 200 million yen (resolved at the 100th Annual General Meeting of Shareholders held on June 29, 2006)

This amount was approved as the maximum amount of stock acquisition rights to be allotted as stock options, apart from the amount in (i) above.

The above information has been disclosed in the Company's business reports and published on the Company's website.

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods
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The Company's fundamental position on remunerations of Members of the Board of Directors, Audit & Supervisory Board Members and Executive Officers is as follows: (1) compensation system which attracts diverse and excellent candidates to establish and improve competitive advantages; (2) compensation system which promotes continuous improvement of corporate value and shares interests with shareholders; and (3) objective and transparent decision making process regarding compensations.

Based on the outside research institution's data on Members of the Board of Directors' and Audit & Supervisory Board Members' remunerations, the Company decides on compensations of the members of Board of Directors and Audit & Supervisory Board Members by setting a benchmark every year with other well-known manufacturing companies with a similar business size and in a similar business category as the companies of the same rank, and comparing their remuneration system and the level of remunerations with those of the Company's.

The remunerations of the members of Board of Directors except Outside Directors consist of three factors below, and they are decided based on the roles as members of Board of Directors and positions concurrently held by such members.

(1) Fixed salary

(2) A short-term incentive compensation in the form of bonus

The amount of bonus is set at around 20% of the estimated annual standard salary of each position, and this linked amount is set to fluctuate between 0~200% depending on the circumstances of achievement of EVA target and both sales and operating income targets.

(3) A long-term incentive compensation in the form of stock options (Share Remuneration Type Stock Options) The amount of compensation in the form of stock option is set between about 10~20% of the estimated annual standard salary of each position.

The compensations for the Outside Directors independent of the execution of Company's operations consist of fixed salary and stock options (Share Remuneration Type Stock Options).

The compensations of the Audit & Supervisory Board Members consist only of fixed salary.

The Company has no retirement bonus system for both the members of Board of Directors and the Audit & Supervisory Board Members.

As for the decision on compensations of the members of Board of Directors, the Company has established the Compensation Advisory Committee in order to fulfill similar function as the compensation committee of a “company with committees.” The Compensation Advisory Committee consists of the Chairman of the Board of Directors, all Representative Directors, all Outside Directors and all Outside Audit & Supervisory Board Members. This committee meets at least once a year during the remuneration revision period to examine and evaluate the appropriateness of the remuneration system and the level of remunerations for the members of the Board of Directors and Executive Officers after considering the input from committee members. The results of the examination and evaluation are to be reported at a meeting of the Board of Directors.

[Supporting System for Outside Directors and Outside Audit & Supervisory Board Members]

To allow for active discussions at meetings of the Board of Directors, the Board of Directors Secretariat provides Outside Directors with sufficient explanations on matters such as the background, purposes, and content of the respective agenda items prior to the meeting of the Board of Directors as necessary.

Furthermore, under this support system, administrative divisions such as Global Internal Audit, and the Legal and Compliance Department provide the Outside Audit & Supervisory Board Members with assistance upon the Outside Audit & Supervisory Board Members’ request.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

☐ Outline of the Current Corporate Governance Structure

The Company has introduced, within the framework of a “Company with an Audit & Supervisory Board*,” the Executive Officer system in order to separate the supervision function from the execution function. Following the conclusion of the 109th Annual General Meeting of Shareholders held in March 2015, the Company continuously has: six (6) members of the Board of Directors, including three (3) Outside Directors (six (6) out of six (6) are male); five (5) Audit & Supervisory Board Members, including three (3) Outside Audit & Supervisory Board Members (four (4) out of five (5) are male and one (1) is female); and twenty-six (26) Executive Officers, including four (4) Executive

Officers, with the title of Senior Managing Executive Officer or Managing Executive Officer and without concurrent positions in the Board of Directors (twenty-four (24) out of twenty-six (26) are male and two (2) are female). Two (2) out of three (3) Outside Directors and all Outside Audit & Supervisory Board Members maintain their neutrality, independent from the Company's management. In order to improve the transparency and other aspects of discussions in the Board of Directors, an Independent Outside Director has become the chairman of the Board after the 108th Annual General Meeting of Shareholders held in March 2014. The term of office for Directors and Executive Officers is one year.

*For information concerning reasons for adopting a company with an Audit & Supervisory Board, please see "(5) Company with an Audit & Supervisory Board" in "4.Basic position and policy on corporate governance" in "Matters to be disclosed based on each principle of the Corporate Governance Code" in "1.Basic Position on Corporate Governance" in "Basic Position on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information" above.

☐ Activity for strengthening the auditing function of the Audit & Supervisory Board Members

For improving the auditing effectiveness and strengthening the auditing function, the Company increased the number of its outside Audit & Supervisory Board Member by one from the 107th Annual General Meeting of Shareholders held in March 2013. Five Audit & Supervisory Board Members, including three Outside Audit & Supervisory Board Members who are independent from Kao's management, exchange opinions regularly with Representative Directors, attend the meeting of Board of Directors, the Management Committee and other important meetings, participate in regular Conferences by Audit & Supervisory Board Members of Domestic Group Companies, and share auditing information with the internal auditing division and the Company's Accounting Auditor. Audit & Supervisory Board Members also conduct hearings with internal divisions and our subsidiaries regularly or as necessary.

In addition, the accounting firm, Deloitte Touche Tohmatsu LLC as the Company's Accounting Auditor, ensures, in accordance with applicable laws, regulations, etc., that none of its employees who become involved in the audits of the Company will be involved in such audit for more than 7 accounting periods. The Company executed an audit contract with Deloitte Touche

Tohatsu LLC with respect to audits required under the Corporation Law and the Financial Instruments and Exchange Law, and pays remuneration to the accounting firm in accordance with this contract. The names of the certified public accountants (CPA) who engaged in the audit for FY2014 (ended December 31, 2014) and the composition of the assistants in the audit are as follows:

- Name of the CPAs engaged in the audit:

Designated Limited Liability Partner/Engagement Partner: Hiroshi Yoshida, Shigeo Kawashima and Yasushi Suzuki

- Composition of assistants in the audit:

15 CPAs and 26 others

☐ Summary of liability limitation agreements

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

3. Reasons for Adoption of Current Corporate Governance System

The Company has made continuous efforts to improve its corporate governance structure. The Company will continue to examine the issue of corporate governance structure improvement as part of its managerial challenges. The Company considers it appropriate to make efforts to improve its corporate governance structure through establishing the Committee for the Examination of the Nominees and the Compensation Advisory Committee, on the basis of its current structure as a “Company with an Audit & Supervisory Board*” which has the Board of Directors (half of the Board of Directors are Outside Directors) and the Audit & Supervisory Board (majority of the Audit & Supervisory Board are Outside Audit & Supervisory Board Members.)

*For information concerning reasons for adopting a company with an Audit & Supervisory Board, please see “(5) Company with an Audit & Supervisory

Board” in “4.Basic position and policy on corporate governance” in “Matters to be disclosed based on each principle of the Corporate Governance Code” in “1.Basic Position on Corporate Governance” in “Basic Position on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information” above.

☐ Matters Related to Outside Directors (Roles and Functions of Outside Directors)

The Outside Directors are expected to share, in the course of management of the Company, their considerable experience and expertise as a manager of a global manufacturing company or a major financial institution or a management consultant, and the Outside Directors fulfill the checking functions from neutral positions, independent of the Company’s management, to ensure that the managerial decisions of the Company are not biased by the views of its internal members. Also, an Independent Outside Director has become the chairman of the Board.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Company dispatches the convocation notice of each annual general meeting of shareholders approximately 1 month before the date of the meeting every year. The Company posted the convocation notice for the 109 th Annual General Meeting of Shareholders on the online Timely Disclosure Network of the Tokyo Stock Exchange and on its website on February 25, 2015 before the date of dispatching. It was dispatched on February 27, 2015, 26 days before the date of the meeting (March 25.)
Allowing Electronic Exercise of Voting Rights	The exercise of voting rights by electromagnetic means was started at the 100 th Annual General Meeting of Shareholders held in 2006.
Participation in Electronic Voting Platform	The use of an electronic voting right exercise system for institutional investors (“Platform” operated by ICJ, Inc.) was also started at the Annual General Meeting of Shareholders held in 2006. Furthermore in order to encourage the exercise of voting rights by the foreign shareholders, who hold close to 50% of the Company's total shares, the Company conducts

	surveys on shareholders who actually own the shares and provides them with the summary of the notice of Annual General Meeting of Shareholders in English. The Company also encourages the exercise of voting rights by Japanese Institutional Investors at analyst meeting and interviews for full-year financial results.
Providing Convocation Notice in English	The convocation notice (entire text) and its English translation (summary) are published on the Company's website.
Other	At the Annual General Meeting of Shareholders, the Company provides the shareholders with easy-to-understand explanations for main parts of the "Business Report" and the "Key Approaches to Challenges and Medium-to-Long-Term Outlook" by using the projected images.

2. IR Activities **[Updated]**

	Supplementary Explanations	Explanation by Representative(s) of the Company
Preparation and Publication of Disclosure Policy	<p>The Company has established Disclosure Guidelines which set forth its commitment to strict compliance with the Corporation Law, the Financial Instruments and Exchange Law, and other applicable laws and regulations, as well as the rules set down by the Tokyo Stock Exchange (TSE), particularly through the timely disclosure of information falling under the scope of TSE's "Securities Listing Regulations."</p> <p>The Company's Disclosure Guidelines are published on the Company's website. http://www.kao.com/jp/en/corp_ir/disclosure.html</p>	
Regular Investor Briefings for Analysts and Institutional Investors	Financial results briefings are held twice a year, on the date of the announcement of full-year and interim financial results. A business management overview and management policy are reported and explained by the President and CEO, and the actual and expected corporate performance are reported and explained by the Senior Vice President of the accounting and finance management department. As part of a constructive dialogue with a view to enhance the corporate value, small meetings between the President and CEO and	Yes

	analysts and institutional investors are held regularly. Furthermore, plant tours and business operation seminars are held whenever appropriate.	
Regular Investor Briefings for Overseas Investors	To hold constructive dialogues with a view to enhance the corporate value and to facilitate the exercise of voting rights, the President and CEO visits North America and Europe once a year, respectively, and also visits to hold dialogues with various institutional investors whenever appropriate. Members of the management visit Asia adequately to hold seminars, and they explained the Company's management policy, as well as matters such as the managerial environment and business performance and outlook, and answered questions subsequently asked by investors.	Yes
Posting of IR Materials on Website	Reports of financial results, quarterly reports, annual securities reports, quarterly securities reports, notices of convocation of shareholders meetings, summary of resolutions at shareholder meetings, annual reports, shareholders' reports (year-end and interim) and presentation materials at shareholders meetings and financial results briefing sessions (held twice a year) are published on the Company's website. Furthermore, reports of financial results, summaries of quarterly reports, summary of resolutions at shareholders meetings, presentation materials at shareholders meetings and financial results briefing sessions are translated into English and published on the Company's website on the days that they are announced. Information in Japanese available at: http://www.kao.com/jp/corp_ir/investors.html Information in English available at: http://www.kao.com/jp/en/corp_ir/investors.html	
Establishment of Department and/or Manager in Charge of IR	Corporate Strategy performs IR functions, aiming to reinforce strategic disclosure of information. A total of Four members respond to IR issues at the head of one Vice President.	
Other	(Measures aimed at individual shareholders) The Company sends shareholders' reports (year-end and interim) to shareholders every March and August.	

	<p>Furthermore, a “Kao Museum Tour”, a “Kao Kawasaki Plant Tour” and “Kao Eco-Lab Museum Tour” are held for shareholders who own one unit share or more. The tours included explanations from Management of Kao’s performance, mid-term management plan and status of shareholder returns as well as subsequent question and answer sessions with shareholders.</p> <p>(Measures aimed at institutional investors)</p> <p>The Company had an exchange of opinions with multiple institutional investors on how to promote constructive dialogues, and makes use to improve information disclosure and daily IR activities. Also, the Company conducted a meeting (6 companies and 6 institutional investors attended the meeting) regarding corporate governance.</p>
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3. Measures to Ensure Due Respect for Stakeholders **[Updated]**

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	<p>The Kao Way, an essence of the Company's corporate philosophy, declares, "Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective." The "Vision" section of the Kao Way further states, "We aim to be the global group of companies that is closest to the consumers and customers in each market, earning the respect and trust of all stakeholders."</p> <p>Furthermore, the Principles of Corporate Ethics in “Kao's Business Conduct Guidelines” state, "Kao Corporation seeks to be an honest and exemplary company, guided by sensible and fair actions and driven by a fundamental adherence to ethical principles that go beyond mere compliance with laws to earn the true respect of all stakeholders. The Business Conduct Guidelines also give specific guidance about respecting the standpoint of stakeholders.</p>
Implementation of Environmental Activities, CSR Activities etc.	<p>In 1998, the Company first issued a report which shows the Company’s approach to the environment, and from 2005, it started disclosing information as the “CSR Report.”</p> <p>In the same year, the Company announced support for the UN Global</p>

	<p>Compact. It started CSR procurement from 2006, and joined the non-profit international Roundtable on Sustainable Palm Oil (RSPO) in 2007.</p> <p>In 2009, to respond to changes in the global business environment surrounding the Company, the Company announced the “Kao Environmental Statement,” which states as its goal to position ecology at the core of management as outlined in its medium- and long-term strategy. At the same time, the Company changed its corporate message to “Enriching lives, in harmony with nature,” and established a new corporate identity (CI).</p> <p>The “Kao Environmental Statement” is published on the Company’s website. http://www.kao.com/jp/en/corp_news/2009/pdf/20090617_002_01.pdf</p> <p>From April 2010, the Company added to its mission, “to contribute to the sustainability of the world,” in order to clarify its intention to promote the Company’s operations with its focus on creating “corporate value” and “social value.” Along with this change, the Company changed the name of the “CSR Committee” to the “Sustainability Committee,” and has continued discussions regarding the direction of sustainability promotion. In 2013, the Company formulated the “Kao Sustainability Statement,” in order to clarify its sustainability policy and key areas of activities and goals, and will further promote sustainability initiatives.</p> <p>The “Kao Sustainability Statement” is published on the Company’s website. http://www.kao.com/jp/en/corp_csr/csr_action_00.html</p> <p>In addition, by establishing the “Eco-Strategy Committee” under the Sustainability Committee and the “SAICM Promotion Committee” under the Eco-Strategy Committee, the Company is promoting activities to achieve goals stated in the “Kao Environmental Statement.” Furthermore, CSR activities relating to, among others, environment and safety, risk management, quality, compliance and procurement are being enhanced by the appropriate departments. Details of the information above are reported in the “Sustainability Report” published on the Company’s website. http://www.kao.co.jp/corp/sustainability-reports/en/</p> <p>“RSPO”: Roundtable on Sustainable Palm Oil. It was established to address challenges relating to palm oil production, including</p>
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	eco-system destruction through the logging of tropical rainforest and poor plantation labor conditions.
Development of Policies on Information Provision to Stakeholders	<p>The Company has established Disclosure Guidelines which set forth its commitment to timely, accurate, and impartial disclosure of information to shareholders, investors, and all stakeholders in strict compliance with the Corporation Law, the Financial Instruments and Exchange Law, and other applicable laws and regulations, as well as the rules set down by the Tokyo Stock Exchange (TSE) where the Company's shares are listed, particularly through the timely disclosure of information falling under the scope of TSE's "Securities Listing Regulations."</p> <p>The Company's Disclosure Guidelines are published on the Company's website. http://www.kao.com/jp/en/corp_ir/disclosure.html</p>
Other	<p>(Measures to promote the active participation of women)</p> <p>The Company stresses the respect for diversity, which includes culture, nationality, belief, race, gender, etc, in "the Kao Way," the Company's corporate philosophy, and clearly states in "Kao Sustainability Statement" that the Company will focus on the respect for "Diversity & Inclusion." The Company has been promoting cultivation and appointment of employees in accordance with their motivation and ability. On the other hand, the Company started activities for promoting the appointment of female employees from the early stage. In 1990, the Company appointed a responsible person for the female ability development, and through 2000-2005, at a committee consisted of members from cross-sectional divisions, the Company strengthened the female career development and has been continuously improving support systems to create various working styles of females. As a result, job categories of female employees have expanded, and the ratio of female leaders is increasing. In 2010, the Company announced their official support for "Women's Empowerment Principles-Equality Means Business," a set of guidelines promoting gender equality and empowerment of women in the workplace. The United Nations Development Fund for Women joined forces with the United Nations Global Compact to draw up the document. The President and CEO signed the CEO Statement of Support for the initiative.</p> <p>The ratio of male employees to female employees is almost equal in the areas of marketing and product development of consumer products, customer lifestyle research, customer communications and product public relations and so on. Also, many female employees are now</p>

	<p>playing leading roles, and the ratio of female leaders (manager or higher) is about 21.5% in these divisions.</p> <p>Furthermore, to study for issues and implement measures for female employees to play active roles, the Company held 22 meetings between the President and CEO and female employees, and carried out a questionnaire survey toward employees and manager hearings. To accomplish the Company's mission globally, the realization of diversity is required, so the Company is now striving to increase the number of female executive managers by encouraging female employees to participate in training programs which cultivate executive managers and other measures. As a result, two (2) female employees have become Executive Officers.</p> <p>The ratio of female employees and that of female leaders as of December 31, 2014 is as shown below.</p> <p>【The ratio of female employees】 Kao Corporation: 22.1% Kao Group in Japan: 55.3% The Entire Kao Group: 53.0%</p> <p>【The ratio of female leaders】 Kao Corporation: 8.5% Kao Group in Japan: 10.1% The Entire Kao Group: 27.6%</p> <p>Due to the positive evaluation of the Company's principle of respecting diversity and inclusion, its measures to promote it, and its organizational culture where employees can play an active role regardless of gender, the Company was selected as a "Nadeshiko Brand*" in February 2013 and March 2015.</p> <p>Also, the Company was selected as a "Diversity Management Selection 100*" in March 2013.</p> <p>*"Nadeshiko Brand": The Tokyo Stock Exchange and the Ministry of Economy, Trade and Industry jointly select and publicize enterprises listed on the first section of the Tokyo Stock Exchange that are exceptional in encouraging women's success in the workplace from 2013.</p> <p>*"Diversity Management Selection 100":The Ministry of Economy, Trade</p>
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	<p>and Industry selects enterprises that create innovation and conduct business which leads to creation of value, by utilizing various human resources and by giving them opportunities to fully show their competence from 2013.</p> <p>(Measures to promote the health of employees)</p> <p>In 2008, the Company published "the Kao Group Health Declaration" based on the principle that without healthy employees, the Company cannot achieve its objective of Yoki-Monozukuri, which allows the Group to grow and contribute to society. Currently, with the goal of increasing the number of employees with high health literacy, the Company is engaged in "health management" which uses a PDCA cycle to increase employee health levels. As part of the initiatives, the Company compiled health data since fiscal 2008 in "the Kao Group Health White Paper" to identify issues and examine measures, and then formulated its mid-term plan for health in 2010. To promote employees' health, the Company has been involved in organizational initiatives such as establishing a cooperative framework by an employer, the health insurance union, industrial healthcare staff and external specialists.</p> <p>Due to the positive evaluation of the Company's measures and results, the Company was selected as a "Health and productivity management brand*" in March 2015.</p> <p>*"Health and productivity management brand": The Tokyo Stock Exchange and the Ministry of Economy, Trade and Industry jointly select enterprises which set the management of employee health as a corporate management issue and actively implement relevant strategies.</p>
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IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development

[Basic Policy Regarding the Internal Control System]

The Company has established an Internal Control Committee chaired by the President and CEO. 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 Members of the Board and employees of the Company and its subsidiaries conforms to laws and the Articles of Incorporation

Members of the Board, 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 govern compliance with laws, the Articles of Incorporation, internal rules and social ethics. The Compliance Committee, chaired by the Member of the Board 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 Corporate Audit Services 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 Members of the Board’s 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 Members of the Board’s execution of their duties is properly retained and managed according to the document retention and management policies and other related policies. The Members of the Board, Audit & Supervisory Board Members and employees designated by them may access such information at any time.

- (3) Rules and other systems concerning risk management of the Company and its subsidiaries

The Company has developed systems to manage any impact of risks on the Kao Groups as a whole, as well as appropriate countermeasures to be taken in relation thereto. With regard to risks involved in business strategies, a

responsible division reviews the progress of short-term and medium-to long-term business plans, including business conditions, which form the basis for such strategies, and further identifies risks and considers and implements necessary countermeasures, in cooperation with the related divisions and subsidiaries. With regard to operational risks, the Risk Management Committee, chaired by the Executive Officer in charge of risk management, verifies the furtherance of Company-wide risk management and establishes basic policies and preparation and operating plans of specific countermeasures for the activities to be carried out upon each occurrence of disasters/accidents, product quality problems and other emergency situations, in accordance with the “Kao Risk Management Policy.” In the event of an emergency, an emergency response organization will be established to respond to such situation, centered on the responsible divisions and subsidiaries, and depending on the graveness of the impact on the Kao Group as a whole, an emergency response headquarters will further be established in order to promptly respond to the situation, with the President and Chief Executive Officer or another appropriate person acting as the head thereof. The management status of the above-described risks will be reported and discussed at the meeting of the Board of Directors or at the Management Committee on a regular basis, and also in a timely manner whenever necessary.

- (4) A system to ensure that Members of the Board 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, Members of the Board 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 Members of the Board of the Company's subsidiaries

The Company applies the Group Management rules 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, Members of the Board 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, Corporate Audit Services 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 Members of the Board 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 Members of the Board 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 Members of the Board and employees of the Company and Members of the Board, Audit & Supervisory Board Members 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, members of the Board of Directors and Executive Officers in charge of the Company's subsidiaries and members of the Board of Directors and Audit & Supervisory Board Members 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 Corporate Audit Services reports audit results to Audit & Supervisory Board Members regularly or as necessary. Audit & Supervisory Board Members of subsidiaries share audit results with Audit & Supervisory Board Members of the Company at the meeting of Audit & Supervisory Board Members of Domestic Kao Group 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

Members of the Board 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) A policy concerning payment or reimbursement of expenses pertaining to execution of duties by Audit & Supervisory Board Members including advance payment of the expenses and procedure of reimbursement, etc

The Company allocates budget for expenses pertaining to execution of duties by Audit & Supervisory Board Members every year. When 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 Corporation Law,

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

To conduct efficient and effective audits, Audit & Supervisory Board Members maintain a close cooperative relationship, which includes the exchange of information, with the Accounting Auditor and the internal audit functional departments such as Corporate Audit Services, as well as Audit & Supervisory Board Members and internal audit departments of subsidiaries. In addition, Audit & Supervisory Board Members may 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 implemente 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. Basic Views on Eliminating Anti-Social Forces

The Company has made the following declaration in Kao's Business Conduct Guidelines, as well as stating establishment of system in above Basic Policy Regarding the Internal Control System. The Company has familiarized all

employees of Kao Group companies with this policy and posted Kao's Business Conduct Guidelines on the Company's website.

We shall not engage in any activities which are detrimental to society. Furthermore, we shall resolutely resist pressure by any individual, group or organization to support such activities.

- We shall maintain a resolute attitude against activities which are unlawful or contrary to the public welfare.
- We shall not participate in any activities that are illegal or contrary to the public welfare regardless of any competing pressure to do so.
- We shall reject any relationship with groups that act contrary to the public welfare, and shall not yield to any attempt of blackmail or threat. We shall not involve ourselves in any activities or conduct which offends social norms or morality, such as money laundering, offers of illegal interest, etc.

On the basis of provision above, 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 under normal circumstances.

Please see the reference material “Status of Corporate Governance System” in the “Appendices” at the end of this policy.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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2. Other Matters Concerning to Corporate Governance System

☐ Outline of Organization for Timely Disclosure

Internal policies regarding timely disclosure of the Company's information is as follows:

1. Basic Position of Timely Disclosure

To earn the trust and support of society, the Company is committed to timely, accurate and fair disclosure of information to its shareholders, investors and all

other stakeholders. The Company strictly adheres to the Japanese Corporation Law and the Financial Instruments and Exchange Law and other regulations, as well as the regulations set down by Tokyo Stock Exchange(TSE), Inc., and promptly discloses information in accordance with the Securities Listing Regulations. In addition, the Company proactively discloses information of social relevance pertaining to the Kao Group.

2. Internal System of Timely Disclosure

The Company has established a system which the secretariat of Disclosure Committee consolidates the management of material corporate information including all the decisions, occurrence of material facts and earnings information of the Company and of the Company's subsidiaries. The Disclosure Committee reviews whether certain material corporate information should be disclosed pursuant to the Securities Listing Regulations of TSE in consultation with relevant divisions such as Accounting & Finance, Legal, Public Relations, R&D and Production. If necessary, the Committee decides the contents, time and methods of disclosure after getting an approval of Representative Director and CEO, or if absent, one of the other Representative Directors or Corporate Information Handling Officer registered at TSE.

In principle, Representative Director or its assignees discloses information by TDnet , and press conference and posting of news release if necessary, in accordance with the decision by the Committee. The information registered at TDnet will also be promptly posted on the Kao website. The Public Relations manages the disclosed information.

The system for the secretariat of Disclosure Committee to collect material corporate information is as follows:

(1) Decisions by the Company

The secretariat shall be informed of all proposals and reports at the meetings of Management Committee and Board of Directors of the Company. All decisions that are required to be disclosed shall always be made at the meetings of Management Committee and Board of Directors of the Company. Therefore, the secretariat is aware of all the decisions.

(2) Occurrence of Material Fact

Immediately after any of the officers and employees of the Company has the knowledge of occurrence of a material fact or the possibility thereof, he or she is required to inform the secretariat of such information.

(3) Earnings Information

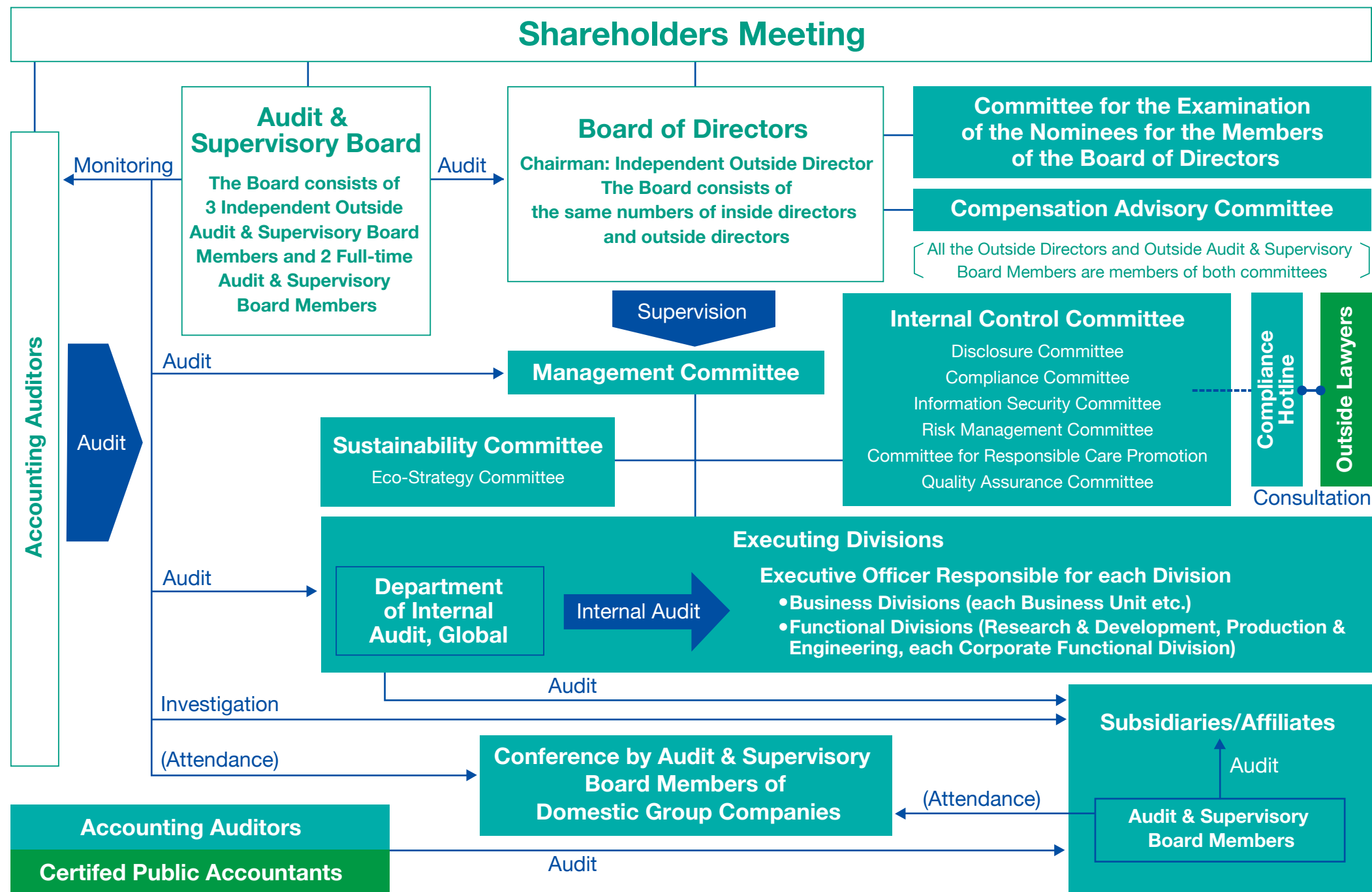
Accounting and Finance Division prepares earnings information of the Company, which is concurrently audited by the Accounting Auditor of the Company. Management Committee and Board of Directors of the Company deliberate earnings information and its main items with analytic data before disclosure thereof.

Burden of the end of term audit by Accounting Auditor is reduced by conducting interim audit, which enables the Company to accurately and timely disclose earnings information.

(4) Information regarding Subsidiaries

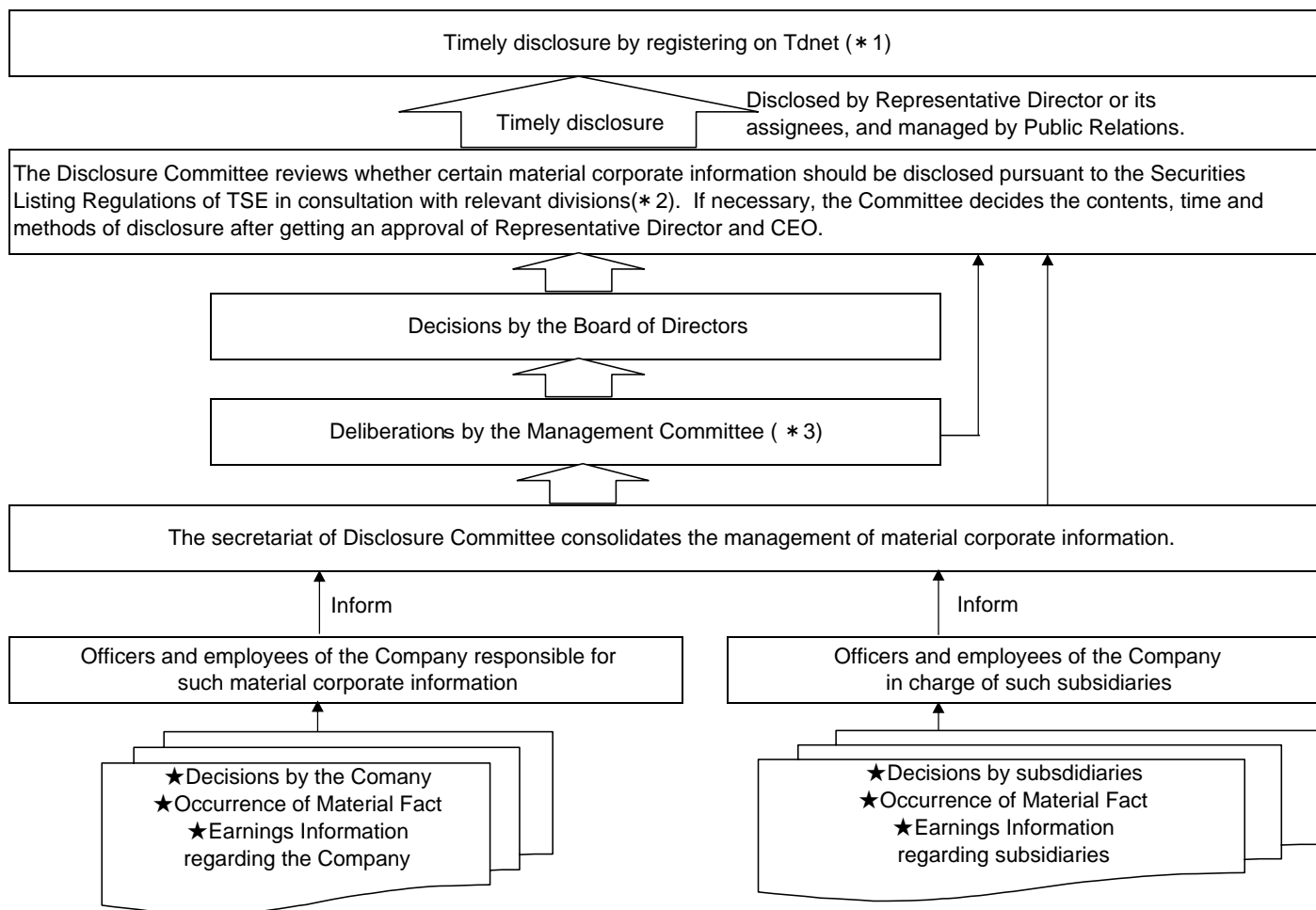
Immediately after any of the officers and employees of the Company in charge of subsidiaries has the knowledge of occurrence of a material fact or the possibility thereof regarding subsidiaries for which he or she is responsible, he or she is required to inform the secretariat of such information.

Chart Regarding Corporate Governance Including Internal Control



Note: Our policy is to ask experts, such as lawyers, for their advice as reference in making business judgements, if necessary, concerning business management and daily operations.

Chart regarding Timely Disclosure



* 1: Disclosure by press conference and posting of news release, if necessary, in addition to registering at TDnet and posting on the Kao website.

* 2: Relevant divisions consulted by Disclosure Committee are Accounting & Finance, Legal, Public Relations, R&D and Production etc.

* 3: The Management Committee is a board which deliberates the most important issues other than the Board of Directors.