

# Kao Corporation

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

February 29, 2016

## Explanation on the Proposal for the 110th Annual General Meeting of Shareholders

To our Shareholders:

We are writing to you to provide an explanation for your better understanding of the proposal concerning the re-election of Mr. Masayuki Oku, the nominee for Outside Director, at the Annual General Meeting of Shareholders to be held on March 25, 2016 (“AGM”).

At last year’s Annual General Meeting of Shareholders, we received comments from some institutional investors that Mr. Oku cannot be regarded as independent since he is the Chairman of the Board of Sumitomo Mitsui Financial Group, Inc., whose subsidiary is one of the lenders to Kao Group. However, not only he is independent from the management of Kao Corporation (“the Company”), we believe that he is qualified as an Outside Director, and that he has made substantial contributions to our management because of the following reasons:

1. Although we still have borrowings from a subsidiary of Sumitomo Mitsui Financial Group, Inc., Kao Group’s aggregate outstanding borrowings as of the end of FY 2015 fell\*\* below our “Standards for Independence of Outside Directors/Audit & Supervisory Board Member of Kao Corporation (the “Standards”)\*”. We, therefore, acknowledge Mr. Oku as an Independent Director.

\* For your information, the Standards were established according to the independence standards of the New York Stock Exchange. Please refer to the following website for detail:

[http://www.kao.com/jp/en/corp\\_imgs/corp\\_info/governance\\_002.pdf](http://www.kao.com/jp/en/corp_imgs/corp_info/governance_002.pdf)

\*\* The ratios of outstanding borrowings to the consolidated total assets of Kao Group were below the Standards for the past three consecutive years. Also, the aggregate amounts of transactions other than the borrowings have been below the Standards as heretofore.

Also, since the purpose of this borrowings is to maintain an appropriate capital cost ratio, borrowings from other financial institutions are also made for this purpose, and we believe this borrowings do not affect Mr. Oku’s neutrality and independency in discussions at meetings of the Board of Directors of the Company.

2. As we believe that it is vital to make discussions from multifaceted perspectives at meetings of the Board of Directors, there are three Outside Directors, all of which are acknowledged as Independent Directors based on the Standards and will be reported to the Tokyo Stock Exchange, Inc. The Outside Directors, who have experience in top management of a global manufacturer and a major financial institution, and a business consultant, respectively, provide their opinions and advice derived from their own experiences and knowledge at meetings of the Board, resulting in intense discussions at such meetings.

As the business environment surrounding Kao becomes increasingly uncertain including unstable worldwide political situations and economies and fluctuations of raw material prices and exchange rates, Mr. Oku's opinions and advice would become even more valuable and essential in making mid to long term business strategy decisions, especially in our focus area of our proactive capital investments and global business strategy, due to his extensive experience as a top management of a major financial institution and his considerable experience in global management.

\*If the item of AGM was approved, as proposed by the Company, there will be four Inside Directors and three Outside Directors.

3. Meetings of the Board of Directors were held fifteen times during FY 2015, and Mr. Oku attended all of them. Also, the Committee for the Examination of the Nominees for the Members of the Board of Directors and Compensation Advisory Committee, which Mr. Oku serves as a member, were held three times respectively, and he attended them all. As for FY 2016, after notifying the schedule of these important meetings, we got his consent on continuing to assume office as an Outside Director.

Thank you very much for your attention, understanding and continued support of Kao Corporation. If you have any questions, please contact Masaru Takeyasu, Vice President, Legal & Compliance for Japan and ASEAN countries at +81-3-3660-7619 or [takeyasu.masaru@kao.co.jp](mailto:takeyasu.masaru@kao.co.jp).

Kindest regards,

Michitaka Sawada  
President and CEO  
Kao Corporation