

Kao Corporation

Notice Regarding Allotment of Stock Options ("Share Remuneration Type Stock Options")

April 27, 2016

Kao Corporation (the "Company" – *Ticker Code:4452*) hereby makes the following announcement: the Board of Directors, at the meeting of the Board of Directors held on the date hereof, resolved: (i) the following details concerning the offering stock acquisition rights (*shinkabu yoyaku ken*) to be issued as stock options to the members of the Board of Directors of the Company and the executive officers of the Company who do not also serve as Company's members of the Board of Directors ("Company D&O"); and (ii) to make an offering of stock acquisition rights to the subscribers of the relevant stock acquisition rights, with the purpose of: (a) enhancing the motivation and morale of the Company D&O to improve the performance and stock values of the Company, through further increasing the correlation between the remuneration of the Company D&O and the performance and stock values of the Company; and (b) further increasing the Company's corporate value, through promoting the shared interests of the Company D&O and the Company's shareholders, pursuant to Articles 236, 238 and 240 of the Corporation Law.

Terms and Conditions of the Issuance

1. Name of Stock Acquisition Rights:

Stock Acquisition Rights Series 15 of Kao Corporation

2. Total Number of Stock Acquisition Rights:

40 stock acquisition rights

The above total number is the planned allotted number. If the total number of stock acquisition rights to be allotted decreases, including the case where an application has not been made for subscription, the total number of stock acquisition rights to be allotted shall be the total stock acquisition rights to be issued.

3. Type and Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights:

The type of shares to be delivered upon exercise of the stock acquisition rights will be shares of the Company's common stock, and the number of shares to be delivered upon exercise of each stock acquisition right ("Allotted Number of Shares") will be 1,000 shares. If, however, after the date of allotment of the stock acquisition right ("Allotment Date"), the shares of the Company's common stock are subject to any stock split (including any *gratis* allotment of the shares of the Company's common stock; and the same being applied whenever "stock split" is mentioned in the following paragraphs) or any stock consolidation, the Allotted Number of Shares will be adjusted using the following formula, rounding down the number of shares less than one (1) share resulting from the adjustment:

$$\begin{array}{lcl} \text{Adjusted Allotted} & & \text{Number of} \\ \text{Number of Shares} & = & \text{Shares before} \\ & & \text{Adjustment} \end{array} \times \begin{array}{l} \text{Stock Split/Stock Consolidation} \\ \text{Ratio} \end{array}$$

The adjusted Allotted Number of Shares shall apply: (i) on or after the following day of the record date of the relevant stock split in the event of a stock split; or (ii) on or after the effective day of the stock consolidation in the event of a stock consolidation. However, in the event of a stock split to be conducted on the condition that the proposal for increasing the capital or the capital surplus by decreasing the retained earnings be approved at the general meeting of shareholders of the Company, and if the record date of the stock split shall be any day prior to the conclusion day of the relevant general meeting of shareholders, the adjusted Allotted Number of Shares shall apply retrospectively to the following day of such record date, on or after the following day of the conclusion day of the relevant general meeting of shareholders.

In addition to the above, if, after the Allotment Date, there is an unavoidable reason for requiring the adjustment of the Allotted Number of Shares, the Allotted Number of Shares will be adjusted to a reasonable extent.

Furthermore, when the Allotted Number of Shares is adjusted, the Company shall give notice or publicly announce to the respective person holding stock acquisition rights, who is registered in the registry of the stock acquisition rights ("Stock Acquisition Right Holder"), of the necessary matters, no later than the day prior to the day when the adjusted Allotted Number of Shares will apply. However, if no notice or public announcement can be made on the day prior to the day when the adjusted Allotted Number of Shares applies, such notice or public announcement shall be promptly made subsequently.

4. Value of Assets Contributed upon Exercise of Stock Acquisition Rights:

The value of the assets to be contributed upon the exercise of each stock acquisition right is equal to the product of: one (1) yen to be paid for each share that will be delivered upon the exercise of stock acquisition rights ("Exercise Price"); and the Allotted Number of Shares to be exercised.

5. Period for Exercising Stock Acquisition Rights:

From July 1, 2018 to June 30, 2023

6. Matters Concerning an Increase in Capital and Capital Surplus in the Event of Issuance of Shares upon the Exercise of Stock Acquisition Rights:

(1) The amount of an increase in capital, in the event of the issuance of shares upon the exercise of stock acquisition rights, will be equal to the amount of the maximum increase in the amount of capital or the like calculated in accordance with Article 17, Paragraph 1 of the "Corporate Calculation Rules" multiplied by one half (1/2), with any amount less than 1 yen resulting from the calculation rounded up to the nearest yen.

(2) The amount of an increase in the capital surplus, in the event of the issuance of shares upon the exercise of stock acquisition rights, will be equal to the amount of the maximum increase in the amount of capital or the like provided for in (1) above, less the amount of the increase in capital provided for in (1) above.

7. Restrictions on Acquiring Stock Acquisition Rights by Transfer:

Acquiring stock acquisition rights by transfer is subject to the approval of the Board of Directors of the Company by resolution.

8. Reasons and Terms for Acquiring Stock Acquisition Rights:

The Company may acquire *gratis* stock acquisition rights, if a proposal for approval of a merger agreement under which the Company is to become a dissolved company, a proposal for the approval of an absorption-type demerger (*kyushu bunkatsu*) agreement or incorporation-type demerger (*shinsetsu bunkatsu*) plan under which the Company is to become a demerged company, or a proposal for the approval of a share-for-share exchange (*kabushiki kokan*) agreement or a stock transfer (*kabushiki iten*) plan under which the Company is to become a wholly-owned subsidiary, is approved at the Company's general meeting of shareholders (or if the Board of Directors resolves to proceed with any of the foregoing proposals in a case where a resolution of a general meeting of shareholders is not required), on the date separately determined by the Board of Directors of the Company.

9. Handling of Stock Acquisition Rights Upon Restructuring:

In the event the Company conducts a merger (limited to where the Company is dissolved as a result of the merger), an absorption-type demerger, an incorporation-type demerger, a share-for-share exchange, or a stock transfer (collectively "Restructuring"), stock acquisition rights of one of the stock corporations listed in Article 236, Paragraph 1, Item 8(a) through (e) of the Corporation Law (as the case may be) ("Restructured Company") will be delivered to the holders of the stock acquisition rights remaining at the time the Restructuring takes effect ("Remaining Stock Acquisition Rights") in accordance with the following conditions. In this case, the Remaining Stock Acquisition Rights will be forfeited and the Restructured Company will newly issue stock acquisition rights. However, the foregoing applies only where the delivery of the stock acquisition rights of the Restructured Company, in accordance with the following terms, is provided for in the relevant merger agreement, absorption-type demerger agreement, incorporation-type demerger plan, share-for-share exchange agreement, or stock transfer agreement:

(1) Number of Stock Acquisition Rights of the Restructured Company to be Delivered:

Stock acquisition rights will be delivered to the respective holders of Remaining Stock Acquisition Rights in the same number as the Remaining Stock Acquisition Rights held by them.

(2) Type of Shares of the Restructured Company to be Delivered upon Exercise of Stock Acquisition Rights:

Shares of the Restructured Company's common stock

(3) The number of shares of the Restructured Company to be delivered upon Exercise of Stock Acquisition Rights:

A decision will be made subject to 3. above, considering the terms for the Restructuring.

(4) Value of Assets Contributed upon Exercise of Stock Acquisition Rights:

The value of assets contributed upon the exercise of each stock acquisition right is equal to the product of: the paid-in amount after the Restructuring; and the number of shares of the Restructured Company delivered upon exercise of those stock acquisition rights, determined in accordance with (3) above. The paid-in amount after the Restructuring shall be one (1) yen for each share in the Restructured Company issuable upon the exercise of stock acquisition rights.

(5) Period for Exercising Stock Acquisition Rights:

A period commencing on either the initial date of the period for exercising stock acquisition rights as provided for in 5. above, or the effective date of the Restructuring, whichever event occurs later, and ending on the date of expiration of the period for exercising stock acquisition rights as provided for in 5. above.

(6) Matters Concerning Increase in Capital and Capital Surplus In the Event of Issuance of Shares upon Exercise of Stock Acquisition Rights:

To be decided subject to 6. above.

(7) Restrictions on Acquiring Stock Acquisition Rights by Transfer:

Acquiring stock acquisition rights by transfer is subject to the approval of the board of directors of the Restructured Company by resolution (“director”, if the Restructured Company is not a company with a board of directors).

(8) Terms and Conditions for Acquiring Stock Acquisition Rights:

To be decided subject to 8. above.

10. Handling of Fraction Less than One Share upon Exercise of Stock Acquisition Rights:

Any fraction less than one share in the number of shares to be delivered to any Stock Acquisition Right Holder who has exercised stock acquisition rights will be rounded down.

11. Calculation Method of Paid-in Amount for Stock Acquisition Rights:

The paid-in amount for each stock acquisition right shall be equal to the product of: the option price per share calculated based on the basic figures described below in accordance with the following Black-Scholes model; and the Allotted Number of Shares.

$$C = Se^{-qT} N(d) - Xe^{-rT} N(d - \sigma\sqrt{T})$$

$$d = \frac{\ln\left(\frac{S}{X}\right) + \left(r - q + \frac{\sigma^2}{2}\right)T}{\sigma\sqrt{T}}$$

- (1) Option price per share (C)
- (2) Share price (S): the closing price of the common stock of the Company under a regular transaction at the Tokyo Stock Exchange on May 26, 2016 (the basic price of the following transaction day, if there is no closing price.)
- (3) Exercise price (X): 1 yen
- (4) Projected remaining period (T): 3.5 years
- (5) Volatility (σ): share price volatility rate calculated based on the closing price of the common stock of the Company under a regular transaction on the last transaction day of each week during the 3.5 years (from November 27, 2012 to May 26, 2016)
- (6) Risk-free interest rate (r): interest rate of the government bonds whose remaining years match the projected remaining period

- (7) Dividend yield (q): dividend per share (dividend results for Fiscal Year 2015) of the common stock of the Company divided by the share price defined in (2) above
- (8) Cumulative distribution function of the standard normal distribution ($N(\cdot)$)
12. Date of Allotment of Stock Acquisition Rights:
- May 26, 2016
13. Payment Date of Money in Exchange for Stock Acquisition Rights:
- Payment date shall be May 26, 2016.
14. Request for Exercise of Stock Acquisition Rights and Payment Method:
- (1) Upon exercise of the stock acquisition rights, the necessary items shall be filled in on the “Request for Exercise of Stock Acquisition Rights” form by the Stock Acquisition Right Holder, in a manner designated by the Company, with a seal or sign affixed, then the “Request for Exercise of Stock Acquisition Rights” shall be submitted to the place of acceptance of the request for exercise defined in 15. below. The “Request for Exercise of Stock Acquisition Rights” shall be accepted at the place of acceptance of the request for exercise only on the business days of the Company.
- (2) Along with the submission of the “Request for Exercise of Stock Acquisition Rights” stated in (1) above, the amount equal to the “Exercise Price” multiplied by the number of the stock acquisition rights to be exercised (“Paid-in Amount”) shall be remitted in cash to the bank account designated by the Company (“Designated Account”) at the payment handling place defined in 16. below, no later than the date designated by the Company.
15. Place of Acceptance of Request for Exercise of Stock Acquisition Rights:
- The Employee Service of Kao Business Associate Co., Ltd. (If there is any change in the departments in charge of the administration relating to the stock acquisition rights, then the relevant department after such change; If the Company outsources the relevant administration to a third party, such third party.)
16. Payment Handling Place upon Exercise of Stock Acquisition Rights:
- Otemachi Business Department of Mizuho Bank, Ltd. (or the then succeeding bank of the relevant bank or the then succeeding branch of the relevant branch)
17. Effective Period of Exercising Stock Acquisition Rights, etc.:
- The exercise of the stock acquisition rights becomes effective when the “Request for Exercise of Stock Acquisition Rights” was accepted at the place of acceptance of the “Request for Exercise of Stock Acquisition Rights”, and the Paid-in Amount defined in 14. (2) is remitted to the Designated Account.
18. Handling in Connection with Re-reading of the Provisions or Other Measures in this Terms and Conditions of the Issuance:
- If any re-reading of the provisions or any other measures in this Terms and Conditions of the Issuance becomes necessary, the Company may change this Terms and Conditions of the

Issuance in connection therewith in a manner deemed appropriate by the Company in accordance with the Corporate Law and the purposes of the stock acquisition rights, and such change shall be incorporated into this Terms and Conditions of the Issuance.

19. Public Disclosure of Terms and Conditions of the Issuance:

The Company shall keep a copy of this Terms and Conditions of the Issuance of the stock acquisition rights at its head office so as to be available to Stock Acquisition Right Holders for their review during its business hours.

20. Any other necessary matters relating to the stock acquisition rights shall be exclusively delegated to the representative directors.

21. Any one of the provisions above shall be subject to the effectiveness of the registration in accordance with the Financial Instruments and Exchange Law.

Furthermore, stock acquisition rights are to be allotted to the members of the Board of Directors of the Company and the executive officers of the Company who do not also serve as Company's members of the Board of Directors, totaling 27 people. The total number of 40 units of stock acquisition rights, described in 2. above, are made up as follows: 12 units to be allotted to the members of the Board of Directors of the Company and 28 units to be allotted to those executive officers who do not also serve as Company's members of the Board of Directors.

Reference:

The stock acquisition rights to be allotted to the members of the Board of Directors are remuneration, etc., concerning stock acquisition rights to be allotted as stock options, within the limit of 200 million yen (excluding any part of remuneration, etc., to be paid to the member of the Board of Directors who also serves as an employee for his/her service as an employee) as the total maximum annual amount and a total number of 50 stock acquisition rights (50,000 shares in common stock) as the maximum number of stock acquisition rights, which was approved at the 100th Annual General Meeting of Shareholders, held on June 29, 2006.

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