

We implement risk and crisis management that can respond both appropriately and promptly to changes in the business environment, to prevent risks to happen and to minimize the damage and loss in the case where risks become realized.

## Kao's creating value to address social issues

### Social issues we are aware of

The growing severity of social issues—including the issue of waste polluting the oceans such as marine plastic waste, climate change, the depletion of water resources, environmental and human rights issues relating to raw materials procurement, the aging of the population and issues relating to public health and hygiene, etc.—has led to heightened environmental and health awareness among consumers, a trend toward ethical consumption, and growing demand from customers for sustainability.

At the same time, stakeholders are raising their expectations and what they require from companies in terms of corporate compliance, ensuring that products and services provide safety and peace of mind, secure information management, safeguarding of human rights, respect for diversity, and timely and appropriate information sharing and disclosure.

### Kao's creating value

In line with the Kirei Lifestyle Plan (KLP), our new business strategy that incorporates an ESG perspective, we are promoting innovation based on new technologies at every stage from procurement to production, usage and product disposal. We aim to contribute toward the sustainability of society through KLP promotion activities that enable all Kao employees to develop a proper understanding of the KLP's goals and content and help them to realize their respective roles and responsibilities.

Risk and crisis management plays an important role in

underpinning these measures. By prioritizing the formulation of countermeasures to address significant risks that could have a substantial impact on our operations, we aim to provide even better products and services without interruption, and to maintain good relationships based on trust with consumers, clients, business partners and other stakeholders.

### Risks related to realization of our vision by 2030

The business environment in which we operate continues to be affected by uncertainty in terms of changing patterns of market competition, transformation of the market structure and volatility in raw materials markets and in regard to exchange rates, etc. The transformation of consumers' environmental and health awareness has been accompanied by changes in consumer purchasing behavior, and social problems such as the aging of the population and issues relating to health and hygiene have become increasingly serious. As business becomes globalized, and with the structural changes taking place in different sectors, it is vitally important for us to respond in a timely, appropriate manner to the changing risks that affect our business.

The Risk and Crisis Management Committee and Management Committee have defined the main 13 risks of special importance (see Table on the right) that could occur negative impact on our contributions to sustainability of the world through business activities, and on sustainable and profitable growth.

### Main risks

Main risk	Detail of risk
1. Risks related to Response to Social Issues.	<ul style="list-style-type: none"> <li>Risk of being unable to provide appropriate products and services in line with changes in consumer awareness and customer needs in relation to social issues.</li> <li>Risk that our initiatives to address social issues will be perceived as being inadequate.</li> </ul>
2. Risks related to Changes in the Distribution Environment.	<ul style="list-style-type: none"> <li>Risks that would prevent conducting appropriate sales activities for the changes in the distribution environment.</li> <li>Risk of being unable to build a sound supply chain and of being unable to deliver products in a timely, appropriate manner.</li> </ul>
3. Risks related to Business in Asia.	<ul style="list-style-type: none"> <li>Risks that would cause significant delays in the business plan.</li> </ul>
4. Risks related to business investment.	<ul style="list-style-type: none"> <li>Risk of being unable to generate the anticipated level of cash flow, due to worse-than-planned performance, etc. in relation to capital investment and M&amp;A.</li> </ul>
5. Risks related to Product Quality.	<ul style="list-style-type: none"> <li>Risk of serious product incidents, or of concerns emerging with regard to product safety or environmental issues.</li> </ul>
6. Risks related to Large-scale Earthquakes, Other Natural Disasters, Accidents and Other Incidents.	<ul style="list-style-type: none"> <li>Risk of major accidents that impact the region in the vicinity of the plant.</li> <li>Risk of obstacles emerging that hinder our ability to supply our products to the market.</li> </ul>
7. Risks related to Information Security.	<ul style="list-style-type: none"> <li>Risk of confidential information or personal information being leaked.</li> <li>Risk relating to temporary disruption of the supply chain or other aspects of business operations.</li> </ul>
8. Risks related to Reputation.	<ul style="list-style-type: none"> <li>Risk of inappropriate statements in advertising etc. being spread widely via social media.</li> <li>Risk of the diffusion of critical evaluations of, or misleading information relating to our business activities, brand image, etc.</li> </ul>
9. Risks related to Raw Material Procurement.	<ul style="list-style-type: none"> <li>Risk of dramatic fluctuations in the market price of raw materials.</li> <li>Risk relating to the stability of raw materials procurement.</li> <li>Risk that our initiatives to achieve sustainable, responsible procurement will be perceived as being inadequate.</li> </ul>
10. Risks related to Currency Exchange Rate Fluctuations.	<ul style="list-style-type: none"> <li>Risk that fluctuations in the exchange rates between the Japanese yen (as a functional currency) and foreign currencies will be greater than anticipated.</li> </ul>
11. Risks related to Compliance.	<ul style="list-style-type: none"> <li>Risk of serious compliance violations at group companies, contractors, etc.</li> </ul>
12. Risks associated with retention of human capital.	<ul style="list-style-type: none"> <li>Risk of being unable to systematically implement the retention, cultivation and assignment of human capital with high level specialist skills, leaders able to guide change, etc.</li> </ul>
13. Risks related to Litigation.	<ul style="list-style-type: none"> <li>Risks relating to uncertainty regarding the outcome of lawsuits.</li> </ul>

# Risk and crisis management 102-12, 102-29, 102-30, 102-43, 103-1, 404-2

## Opportunities related to realization of our vision by 2030

Faced with social issues and a changing business environment, by clarifying the key operational risks that we face and strengthening our response to them we are underpinning the contribution that we make toward the sustainability of society through sustainable, profitable growth and through our business activities.

## Contributions to the SDGs



## Policies

We define the potential negative impact on the achievement of its management targets and business activities as a “risk” and the materialization of such risk as a “crisis.” The Risk and Crisis Management Committee has established risk and crisis management systems and activity guideline in accordance with the response priorities detailed in the Kao Risk and Crisis Management Policy (1. Protection of human lives 2. Environmental conservation 3. Continuation of operation 4. Protection of assets). Divisions, subsidiaries and affiliates manage risks by identifying and assessing risks, and formulating and implementing countermeasures based on this activity guideline. In addition, when a crisis arises an Emergency Response Team is launched corresponding to the severity of the emergency to promptly and appropriately address the crisis in order to minimize physical damages and financial losses.

## Education and promotion

### Spreading awareness of the risk management system and activity guideline

The Risk and Crisis Management Committee’s Secretariat disseminates information about the significant risks management system and activity guideline formulated by the Risk and Crisis Management Committee to individual divisions, subsidiaries and affiliates. Furthermore, risk surveys and reviews are conducted at each division and subsidiary to identify significant risks and to promote the development and revision of countermeasures on a regular basis, with the aim of putting risk management on a solid footing.

### Risk surveys

Risk surveys—both a comprehensive survey and surveys with questions on designated topics—are conducted at each division and subsidiary to identify significant risks and to facilitate the revision of countermeasures where necessary. For cross-organizational risks and common risks, we are aiming to strengthen our ability to address these as company-wide risks. The results of the surveys are reported back to each division and subsidiary to promote ongoing improvement in and strengthening of the risk management capabilities of the organization and its employees.

### Providing information on risks

We provide employees with an emergency contact and response structure to be used when a risk becomes realized, and information on such issues as overseas safety, infectious diseases and information security. Information is provided on a regular basis or as necessary to raise employee awareness and promote a crisis-preparedness mindset. A “Risk and Crisis Management Report” is posted once a month on our internal portal site to promote an understanding of risk and an immediate, appropriate response in the event of a crisis. The report includes such information as how to prepare for and respond to reputation risk,

terrorism, large-scale earthquakes or pandemics, as well as key points to note when using social media. Through this report, we aim to cultivate a risk-aware culture.

Risk education is also provided to directors (including outside directors) at least once a year by internal or external lecturers.

### Crisis response training

We conduct emergency response training, comprehensive disaster prevention drills, safety confirmation drills, BCP drills, media training, risk communication training, etc. on a regular basis.

## Collaboration and engagement with stakeholders

In order to be able to provide affected areas with emergency supplies and continue to supply necessary products in the event of a large-scale earthquake, typhoon, flooding or other disaster, we maintain close communication with suppliers, contractors, customers, industry associations, government agencies etc. on an ongoing basis.

Realizing an even higher level of collaboration with suppliers and contractors is vitally important in order to be able to promote compliance, enhance product safety and quality, and fulfil our responsibilities in relation to social issues, for example with respect to the environment, human rights, etc.



→ Corporate citizenship activities/Our initiatives: Disaster relief: Other disaster relief  
[www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2020-e-all.pdf#page=88](http://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2020-e-all.pdf#page=88)

→ Process safety and disaster prevention/Framework  
[www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2020-e-all.pdf#page=95](http://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2020-e-all.pdf#page=95)

# Risk and crisis management 102-15, 102-29, 102-30, 102-33, 103-2

## Framework

The Risk and Crisis Management Committee (which meets four times a year) establishes the management system and activity guideline for risk and crisis management. Divisions, subsidiaries and affiliates conduct risk management by identifying and assessing risks and formulating and implementing appropriate countermeasures based on this activity guideline. In addition, we have established the Risk and Crisis Management Promotion Council, held once a month as a subordinate organization of the committee, which discusses proposals with the committee and promotes committee decisions.

The Risk and Crisis Management Committee and Management Committee have defined the main 13 risks of special importance that could have a particularly negative impact on our contributions to sustainability of the world through business activities, and on sustainable and profitable growth. Of these main risks, we designate risks that would have a particularly large impact on our management and that we need to strengthen our response to as “corporate risks.” Once a year, the Management Committee revises the risk themes and persons responsible for addressing them (Executive Officers) based on internal and external risk analysis and informational interviews with management, and the Risk and Crisis Management Committee manages the progress.

When a crisis occurs, Kao responds promptly to minimize physical damages and financial losses by establishing an organization for countermeasures. This organization centers on the executive officer in charge of managing corporate risks as well as on personnel responsible for managing risk within company divisions and at subsidiaries and affiliates. In addition, depending on the magnitude of the impact on the Kao Group as a whole, Kao also establishes Emergency Response Team Headquarters with the President and CEO or executive officer as its general manager.

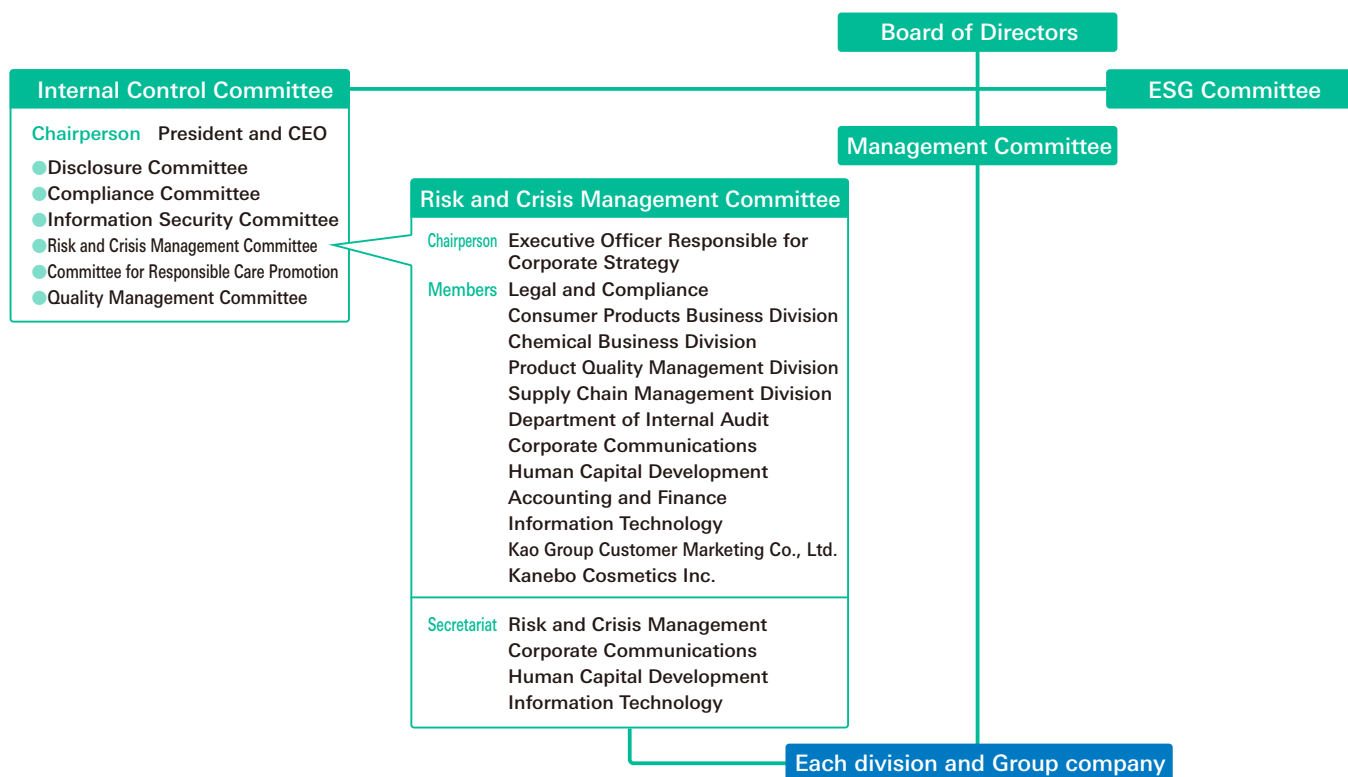
The Risk and Crisis Management Department, which operates

independently of Kao’s individual businesses, promotes effective management of risk and crisis in all Kao Group member companies. Besides submitting proposals for improvement, the Department also works to identify new risks and risks for which it is not clear which unit has responsibility, and formulates response strategies. The head of the Department also functions as head of the secretariat of the Risk and Crisis Management Committee, and reports on risk and crisis management activities regularly

(once a year) and when needed at meetings of the Management Committee and of the Board of Directors. The effectiveness of the risk and crisis management process is verified by the Internal Control Committee.

Performance evaluation of the Executive Officers and the departments responsible for main risks and corporate risks incorporate evaluation of the extent to which targets have been achieved in relation to measures addressing these significant risks.

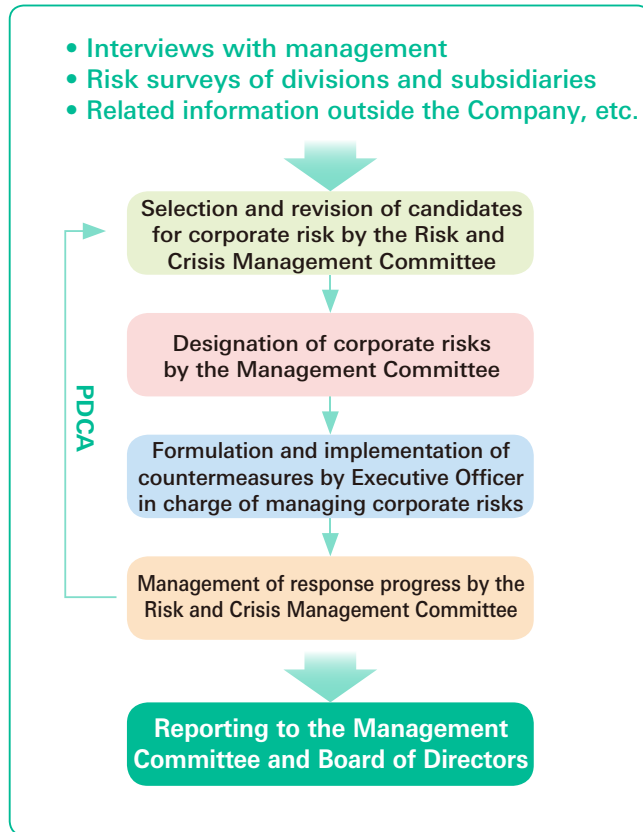
### Risk and Crisis Management Framework



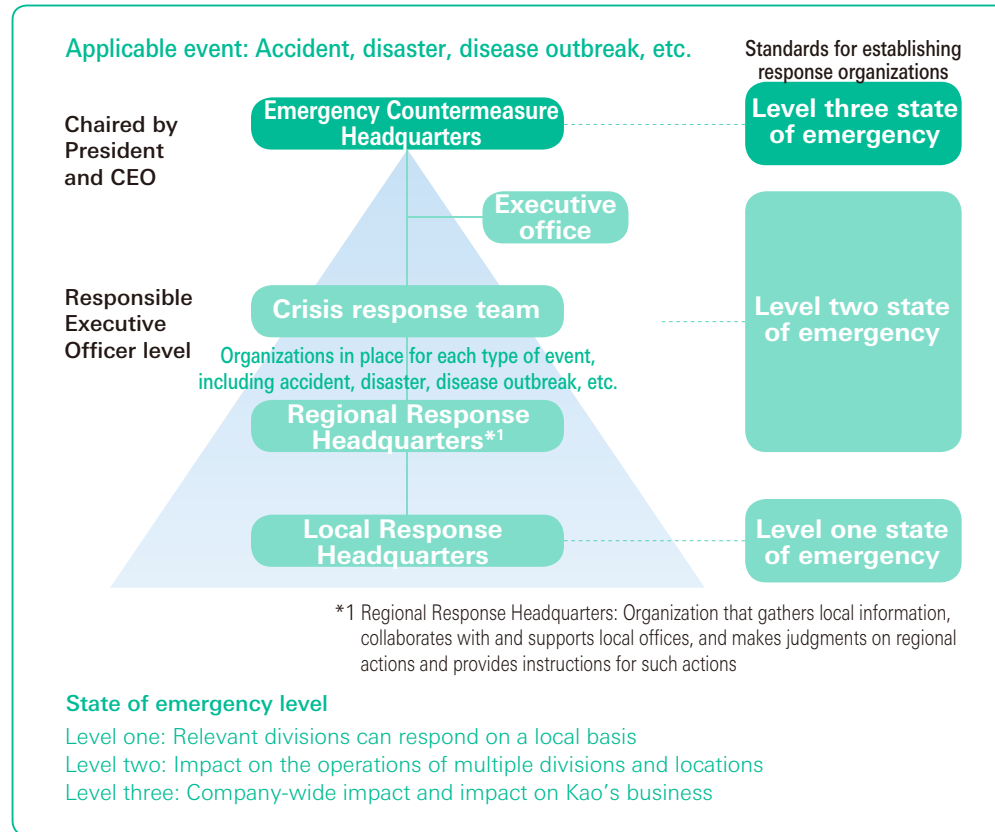
\* As of December 2019.

# Risk and crisis management 102-15, 102-20, 102-29, 102-30, 102-33, 103-1, 103-2, 103-3

## Management of corporate risk



## Management framework during times of crisis (an example)\*



\*System to be followed in the event of a crisis.

Within the Kao Group, when a crisis occurs, the head of the crisis response team will evaluate the level of severity of the crisis on the basis of the potential impact on the Kao Group (designating the crisis as Level one, Level two or Level three depending on the severity of the accident, disaster, epidemic, etc. in question), and an appropriate organizational framework will be established for dealing with the crisis in accordance with the level of severity.

## Mid- to long-term targets and performance

### Mid- to long-term targets

By implementing the following basic strategies, we aim to build a management structure for handling risks and crises that can evaluate to a global level.

- Clarifying main risks and strengthening our counter response.
- Addressing strategic risks affecting profitable growth.
- Rapid and appropriate response when risks manifest.

\* Main risks: These are defined as risks of special importance that could have a negative impact on our contributions to sustainability of the world through business activities, and on sustainable and profitable growth.

### Important Initiatives in 2019

- Strengthened our practical ability to respond to corporate risks.
- Strengthened our practical ability to respond to significant risks at overseas bases.
- Undertook visualization of latent risks relating to business activities and the corporate environment.
- Strengthened our ability to respond to typhoons and torrential rains through the putting in place of appropriate systems.
- Improved employee awareness and sensitivity to risk, etc.

## Performance in 2019

### Performance

#### Defining main risks

The Risk and Crisis Management Committee and Management Committee have defined the main 13 risks of special importance (see p.11) that could have a particularly negative impact on our contributions to sustainability of the world through business activities, and on sustainable and profitable growth.

The content of these details of main risks and the main initiatives taken to address them were disclosed in the “Business and other risk” section of our 114th Financial Report.

#### Implementation of corporate risk response reinforced

On the basis of the progress made in addressing each risk theme, internal and external risk analysis, and interviews with the management team, it was decided by the Management Committee that responsibility for management of 5 out of 12 corporate risk themes would be transferred to the managing divisions, and that one additional risk theme would be added.

Management of the eight corporate risk themes for 2020 is being implemented by the Risk and Crisis Management Committee. The Risk and Crisis Management Committee is also continuing to perform follow-up on some of the risk themes the management of which was transferred.

The main corporate risk themes addressed in 2019 and the measures taken in response are shown on the right.

### Corporate Risks and Main Initiatives in FY2019

Theme	Details of risks	Main initiatives
Changes in the distribution environment	Risks that would prevent conducting appropriate sales activities for the changes in the distribution environment.	We have conducted activities to collaborate with digital platformers operating globally.
Risks related to business in Asia	Risks that would cause significant delays in the business plan for Asia.	We have strengthened our system to respond quickly to tightened laws and regulations in Asian countries as a priority theme.
Response to product quality issues	Risks of serious quality issues arising that would cause trust in Kao to fall.	We are enhancing internal education and other initiatives to respond when serious quality issues arise and prevent their occurrence.
Large-scale earthquakes and other natural disasters	Risks of obstacles to supplying markets with products caused by large-scale earthquakes or other natural disasters.	We have enhanced our preparedness in terms of both “hard” and “soft” aspects for natural disasters including large-scale typhoons and floods as a result of climate change. In addition, we have enhanced our preparedness for large-scale earthquakes by conducting emergency response training and BCP training.
Pandemics	Risks of business suspension due to pandemics from new strains of influenza or other disease.	We have rebuilt our system and countermeasures to be able to quickly address the spread of infectious diseases globally, have formulated detailed action plans that place top priority on human life, including dealing appropriately with persons with symptoms, and have proceeded to make preparations for possible pandemics.
Personal information protection	Risks of personal information leaks caused by intentional acts including cyber attacks or negligence.	We have created a response flow when incidents arise and are conducting response training. We are also strengthening our global system for information security and personal information protection.
Reputation risks	Risks that cause damage to corporate trust and brand value due to the spread of critical evaluations and rumors against the Kao Group.	We have developed our system to monitor external information and are strengthening our emergency response system for when a reputation risk arises.
Risks associated with the use of digital media	Significant risks associated with the use of digital media.	We have established guidelines and are conducting internal education for risks that could lead to reputation risks, including inappropriate expression and stealth marketing in advertising and other communications.
Currency exchange rate fluctuations	Risks associated with exchange rate fluctuations.	We have investigated the structure of exchange rate fluctuation risks and our response, and have confirmed our future response direction.

## **Strengthening our practical ability to respond to significant risks at overseas bases**

Regarding risk management at subsidiaries outside Japan, their management is identifying significant risks and then formulating and implementing countermeasures against them. In 2019, we worked to strengthen the risk management of subsidiaries outside Japan and establish PDCA cycle through coordinating risk management at each of our subsidiaries with activities relating to corporate risks and with the activities of the managing divisions in Japan.

## **Visualizing for management purposes latent risks at business sites and in the business environment**

In order to identify latent risks and new risks at business sites and in the business environment, we have made the risk surveys that are conducted each year more in-depth, as outlined below.

- Presenting examples to show how changes in the external environment are affecting business activities.
- Formulating and presenting more concrete scenarios, based on actual risks that have occurred within and outside the company.

A system has been put in place whereby, after analyzing the risk survey results, any risks that have become apparent are reported to management, so that countermeasures can be implemented.

## **Strengthening our ability to respond to typhoons and torrential rains through the putting in place of appropriate systems**

We have strengthened our ability to respond to natural disasters such as major typhoons, floods, etc., which have grown more frequent in recent years, and, as with large-scale earthquakes, we have clarified and regularized our standards for determining safety and calculating damage. In addition, we have been working to introduce new IT

systems, including systems that enable us to implement real-time monitoring of weather conditions and of the extent of damage in the vicinity of our worksites, and effective utilization of a portal site that is intended to realize the rapid exchange of information between response teams and other stakeholders in the event of a disaster, etc.

## **Improved employees' awareness and sensitivity to risk**

Risk and crisis management information and activities (both internal and external) are shared through the efforts of the personnel responsible for risk and crisis management in each department, and we also utilize our internal portal site to implement ongoing activities to enhance employees' risk awareness.

On the website, we warn about realized risks, and post "Risk and Crisis Management Report" once a month to facilitate an accurate understanding of risk and to enable an appropriate and immediate response when a crisis does occur. The report provides many kinds of information, including information relating to large-scale earthquakes, volcanic eruptions, product quality, employee safety, crisis management PR, etc.

## **Main training/drills in 2019**

- Comprehensive disaster drills (implemented at major plants around the world).
- Emergency response training and BCP training presumed on a large-scale earthquake (implemented twice in Japan).
- Safety confirmation drills presumed on a large-scale earthquake (implemented twice in Japan).
- Risk communication training (at overseas sites).
- Emergency reporting training from overseas bases to Kao Head Office in Japan (implemented at 25 overseas sites).
- Media training and risk communication training (implemented once in Japan).

- High-risk area business trip training (implemented once in Japan).
- Security assessments (at overseas sites).

## **Crisis response performance**

- We verified the safety of employees and the extent of damage to worksites in areas affected by natural disasters, and provided emergency supplies for disaster relief in accordance with local government authorities' requirements. (Torrential rains in Saga, Fukuoka and Nagasaki [August], flooding, Typhoon Faxai [Typhoon No. 15], Typhoon Hagibis [Typhoon No. 19], etc.)

## **Reviews of performance**

The steady implementation of the actions planned at the beginning of the year led to an increase in employees' awareness of risk and an increase in their ability to respond. They were able to respond quickly to actual natural disasters. The issues and additional assumptions that were revealed will be reflected in next year's training (stress tests, deepening of BCP).