

We strive to make improvements to our risk and crisis management system to respond both appropriately and promptly to changes in the business environment, to prevent risks from happening and to minimize damage and loss in cases where risks manifest.

ESG Keyword

Main business risks

Spreading awareness of the risk management system and activity guideline

Improved employees' awareness and sensitivity to risk

Risks regarding COVID-19

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 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. Moreover, the global COVID-19 pandemic has only increased this trend.

On the other hand, stakeholders are also 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 What Kao Aims to Be by 2030

The business environment in which we operate continues to be affected by uncertainty in terms of the global COVID-19 pandemic, changing patterns of market competition, transformation of the market structure and volatility in raw materials markets and in regard to exchange rates, etc. The spread of the infection has transformed consumer awareness regarding the environment, health, hygiene and so on, accompanied by changes in consumer purchasing behavior. 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, including emerging risks*, that affect our business.

The Risk and Crisis Management Committee and Management Committee have defined the main 14 risks of special importance (see table on the next page) that could occur negative impact on our contributions to sustainability of the world through business activities, and on sustainable and profitable growth. Managing divisions have established countermeasure policies for these risks and are managing their progress.

* Emerging risks:

New risks that emerge as a result of factors such as changes in the business environment, risks that have previously not been acknowledged as risks, or risks that have significantly increased in degree

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Main risks

Main risk	Detail of risk
1. Risks related to the COVID-19 pandemic	<p>The following risks are associated with the global spread of COVID-19 and consumer changes.</p> <ul style="list-style-type: none"> • Temporary suspension of operations or obstacles to providing products and services due to multiple infections (clusters) at Kao Group bases or in the supply chains • Delays in product development and launch plans due to a resurgence of infections or prolonged pandemic, due to work that cannot be performed remotely • Delays in the recovery of the Cosmetics Business or other businesses due to a resurgence of infections or prolonged pandemic • Risk from insufficient response to changes in consumers' awareness and values and changes in consumer behavior
2. Risks related to response to social issues	<ul style="list-style-type: none"> • 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 • Risk that our initiatives to address social issues will be perceived as being inadequate
3. Risks related to changes in the retailing environment	<ul style="list-style-type: none"> • Risks that would prevent conducting appropriate sales activities for the changes and speed in the retailing environment including e-commerce growth, fusion of real distribution and online as well as mergers and integration across business formats • Risk of diminishing inbound demand due to infection spread as well as of inadequate response to the shrinking cosmetics market
4. Risks related to business outside Japan	<ul style="list-style-type: none"> • Risk of significant business planning delays due to slow economic growth, political and social instability, problems with business partners such as retailers and agents, sudden changes in laws, regulations and tax systems, an influx of counterfeit products, reputation risks and others
5. Risks related to business investment	<ul style="list-style-type: none"> • 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&A
6. Risks related to product quality	<ul style="list-style-type: none"> • Risk of serious product incidents • Risk of concerns emerging with regard to product safety or environmental issues
7. Risks related to large-scale earthquakes, other natural disasters and accidents	<ul style="list-style-type: none"> • Risk of obstacles emerging that hinder our ability to supply our products to the market by the harm to employees, facilities and supply chain as a result of large-scale earthquakes, large typhoons associated with climate change, floods and other natural disasters • Risk of major harm to employees and the surrounding area due to plant fire or explosion
8. Risks related to information security	<ul style="list-style-type: none"> • Risk relating to personal information disclosure or confidential information leakage as well as temporary disruption of the supply chain or other aspects of business operations through voluntary acts such as cyberattacks or negligence
9. Risks related to reputation	<ul style="list-style-type: none"> • Risk of inappropriate statements in advertising etc. being spread widely via social media • Risk of the diffusion of critical evaluations of, or misleading information relating to our business activities, brand image, etc.
10. Risks related to raw material procurement	<ul style="list-style-type: none"> • Risk of dramatic fluctuations in the market price of raw materials • Risk relating to the stability of raw materials procurement • Risk that our initiatives to achieve sustainable, responsible procurement will be perceived as being inadequate
11. Risks related to compliance	<ul style="list-style-type: none"> • Risk of serious compliance violations at group companies, contractors, etc.
12. Risks related to securing human capital	<ul style="list-style-type: none"> • 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.
13. Risks related to currency exchange rate fluctuations	<ul style="list-style-type: none"> • Risk that fluctuations in the exchange rates between the Japanese yen (as a functional currency) and foreign currencies will be greater than anticipated
14. Risks related to litigation	<ul style="list-style-type: none"> • Risk relating to litigation trends and others

With the spread of the COVID-19 pandemic around the world, the importance of medium-to long-term responses to “risks related to response to social issues” and “risks related to securing human capital” is increasing.



→ Business Risks and Other Risks

www.kao.com/global/en/investor-relations/management-information/risk-of-business/

Opportunities related to realization of What Kao Aims to Be 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, earning a strong sense of trust from our shareholders, and providing products and services deemed necessary by society, we strive to make Kao a company with a global presence.

Contributions to the SDGs



Policies

We regard potential negative impacts on the achievement of the management targets and business activities as a “risk,” and the manifestation of such risk as a “crisis.” We appropriately manage the various risks and crises that could occur across our business following the response priority detailed in the Kao Risk and Crisis Management Policy (1. Protection of human lives 2. Environmental conservation 3. Continuation of operations 4. Protection of assets). The Risk and Crisis Management Committee has established risk and crisis management systems and activity guideline, and 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, 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.

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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 designated risk management system and activity guideline formulated by the committee to individual divisions, subsidiaries and affiliates. Then through self-audits, we confirm how well each division and company understands basic policy and activity guideline, as well as the implementation progress of our activities. Additionally, through the use of our internal portal site, we are able to inform employees about our risk management system, response flow, emergency contacts, guidelines and so on when crises occur. Moreover, we are working to foster awareness of risks and crises by providing alerts and e-learning education for various risks and checking employee attendance and their level of understanding.

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

On our internal portal site, we provide employees with an

emergency contact and response structure to be used when a risk becomes realized. In addition, to promote an understanding of risk and an immediate, appropriate response in the event of a crisis, we also provide information and education about topics, such as how to prepare for and respond to large-scale earthquakes, natural disasters, terrorism, pandemics, information security risks or reputation risks, as well as key points to note when using social media. Risk education is also provided to directors (including outside directors) at least once a year by internal or external lecturers.

In 2020, through our internal portal site and other means, we communicated the status of infections nationally and regionally and work systems and styles to adopt corresponding to national and local government policies as part of our crisis management measures, and employees put them into practice. We also communicated a wide variety of information related to COVID-19 infection protection measures over the year, including ways to strengthen infection protections at workplaces and at home, the response when employees or their family members become infected or are in close contact with an infected person, and systems and precautions when working from home.

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

When it comes to risk and crisis management, in order to quickly and properly address these situations, it is necessary to conduct activities that deepen mutual understanding with our stakeholders through communication.

For instance, when it comes to maintaining product safety and good quality, stable supply, and fulfilling our responsibility toward social issues, working with suppliers and contractors is essential. Concerning stable procurement risks, we actively promote the facility expansion at our major suppliers and the use of secondary suppliers for risk diversification, as well as collaborative efforts to review supplier contracts. Additionally, for sustainable and responsible procurement, we are strengthening coordination with our suppliers through various initiatives such as the monitoring of suppliers by Sedex and the Carbon Disclosure Project (CDP) Supply Chain Program.

Furthermore, in the event of crises such as large-scale earthquakes and typhoons, it is necessary to work not only with suppliers and contractors but also with the government, local governments and industry groups in order to provide relief aid to the affected areas and to ensure the continuous supply of needed products and services. Participation and information exchange in subcommittees and activities is useful for promoting in-house activities. In the event of a crisis, we will provide information on the status of our group and the impact on the market in a timely manner through our website and other avenues, striving to eliminate the concerns of consumers and customers.

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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 14 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

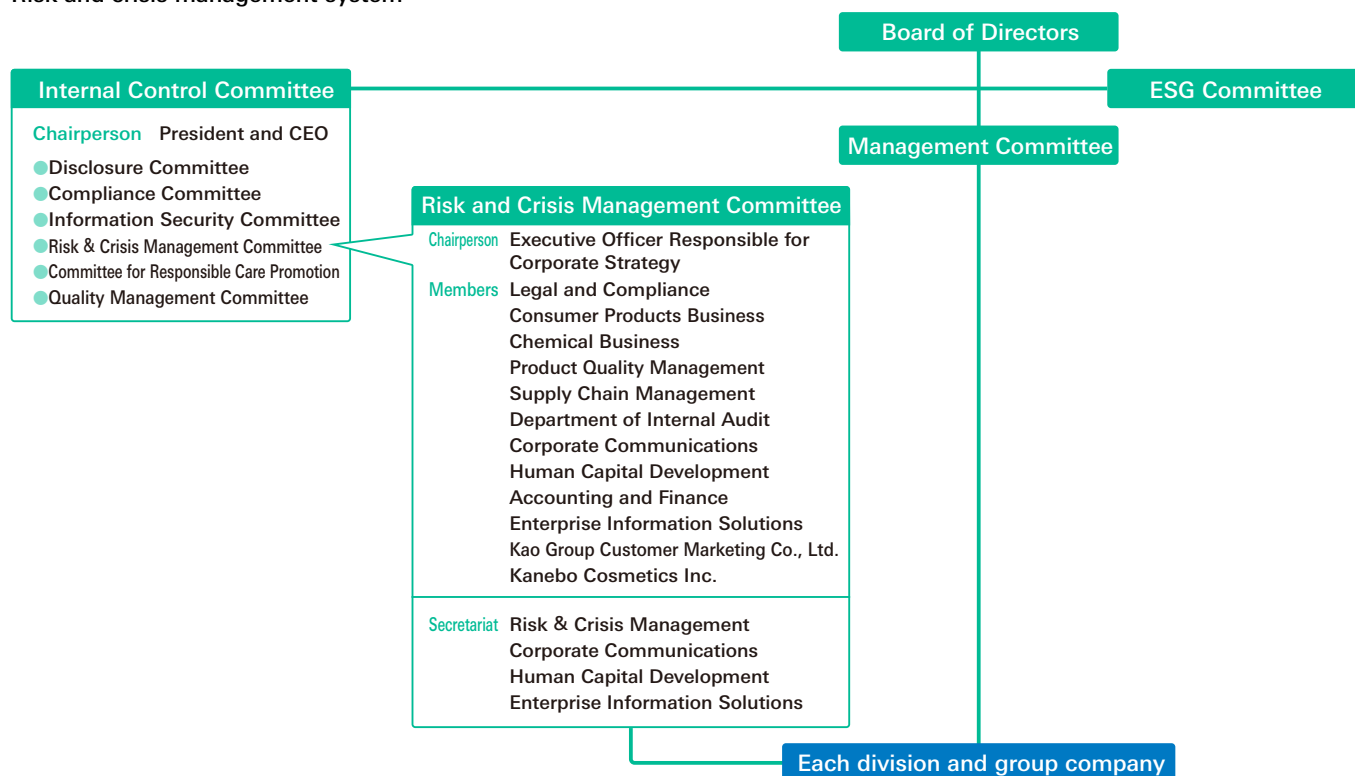
themes and persons responsible for addressing them (executive officers) based on internal and external risk analysis and informational interviews with management, and the Risk and Crisis Management Committee manages the progress.

Conversely, in the event of a crisis, in the case of corporate risks, those responsible for addressing them, or in the case of other risks, those divisions, and subsidiaries and affiliated companies responsible for addressing them, play a central role when it comes to establish an organization for countermeasures. In addition, depending on the magnitude of the impact on the Kao Group as a whole, we also establish Emergency Response Team Headquarters with the President and Chief Executive Officer or executive officer as its general manager to respond to the impact to reduce physical damage and financial loss as much as possible.

Risk and Crisis Management group, 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 group 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 group 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 supervising divisions 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.

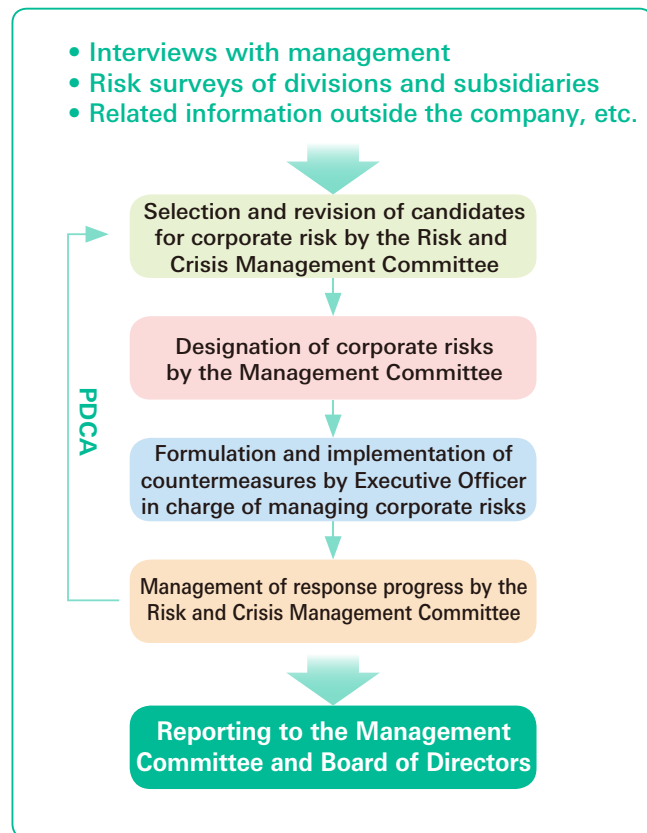
Risk and crisis management system



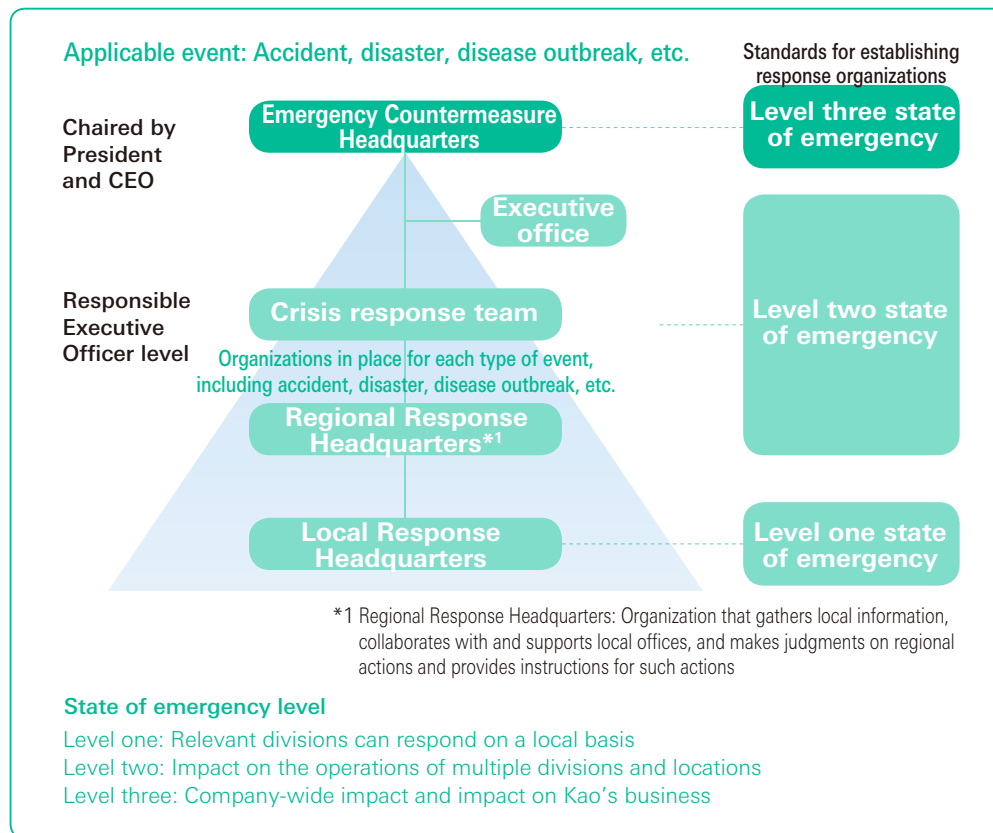
* As of December 2020

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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.

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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

Note: Main risks 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 2020

- Clarifying main risks, including corporate risks, and strengthening our counter response
- Rapid and appropriate response when risks manifest
- Strengthened our practical ability to respond to significant risks at overseas bases
- Strengthening our response to latent risks at business sites and in the business environment
- Strengthening measures against information disclosure, etc.

Anticipated benefits from achieving mid- to long-term targets

Business impacts

By preventing crises from occurring and minimizing any damage or losses in the event of an occurrence, we will be able to achieve our business activity goals and sustainable profit and growth.

Social impacts

Making contributions to social sustainability possible through business activities

Performance in 2020

Performance

Response to the COVID-19 global pandemic

We set the emergency level as “level 3,” the highest level, and held a meeting of the Emergency Response Team Headquarters (headed by the President and Chief Executive Officer) to decide on Group-wide policies regarding (1) ensuring the safety of employees and their families, (2) continuity of business activities, and (3) contributions to society, and took the following actions. In addition, these actions have been reported to the Board of Directors.

1. Ensuring the safety of employees and their families
 - As crisis management measures, followed national and local government policies, and implemented work systems and styles compatible with the status of infection in each country and region (promotion of remote work/teleworking, restrictions on business trips, restrictions on training/events/tours, etc.)
 - Identified the status of infected employees and family members or those who have been in close contact with infected persons, and implemented care as applicable, and measures to prevent the occurrence of infection clusters
 - Launched the Infectious Disease Risk Assessment Project to reinforce infection prevention measures in the workplace and at home
2. Continuity of business activities
 - To maintain the supply chain, implemented higher-level infection control measures at production sites and rolled them out to subcontractors and other related parties, in addition to conducting relevant activities for raw material procurement
 - Enhanced information systems for remote work and promoted digitalization of operations
 - Reviewed Group systems for new work styles
 - Formulated and implemented a business strategy for

dealing with COVID-19

3. Contributions to society
 - Provided a continuous supply of hygiene-related products for cleanliness and worry-free daily life
 - Increased production of alcohol disinfectant to 20 times the previous level and supplied them on a priority basis to medical institutions, nursing facilities and other locations with urgent needs
 - Through our website, provided information on hygiene in daily life, based on the knowledge of experts and our own know-how. Also, for hygiene researchers, medical professionals, public health nurses working at educational institutions and other professionals, provided a wide range of information, including expert knowledge on measures for preventing the spread of infection based on academic papers
 - Contributed to the development of therapies and diagnostic tools for COVID-19, including the discovery of VHH antibodies that can be anticipated to inhibit infection

Clarifying main risks, including corporate risks, and strengthening our counter response

- The Risk and Crisis Management Committee and the Management Committee have selected the 14 main risks of particular significance as the risks that could have a negative impact on our sustained profitable growth and contribution to the sustainability of the world through our business activities. The details of these main risks and our main initiatives are disclosed in “Business Risks and Other Risks” in our 115th Financial Report.
- The Risk and Crisis Management Committee managed the progress of the eight corporate risk themes for FY2020.
- Based on internal and external risk analysis, the Management Committee decided on the management system for nine corporate risk themes for 2021.

Corporate risks and main initiatives in FY2020

Theme	Details of risks	Main initiatives
Pandemics	Risk including damage to employee health and temporary business suspensions occurring due to the global COVID-19 pandemic	<ul style="list-style-type: none"> Apply and practice guidelines and a plan of action, proposed by examining global influenza epidemic responses, against the COVID-19 pandemic (Refer to Response to the COVID-19 global pandemic)
Large-scale earthquakes and other natural disasters	Risk of harm to employees and assets including facilities and difficulties in supplying products as a result of large-scale earthquakes and other natural disasters such as large typhoons and floods associated with climate change	<ul style="list-style-type: none"> Conduct surveys of water-related risks at each business location, and strengthen physical and non-physical countermeasures Conduct disaster preparedness education including verifying hazard maps and evacuation measures Strengthen our response through emergency response drills and BCP drills to prepare for major earthquakes and other events
Environmental legislation outside of Japan	Risk of business or operations being suspended due to drastic changes to environmental legislation	<ul style="list-style-type: none"> Monitor using external specialist organizations and reinforce our response structure regarding impacts on local plants and key suppliers from drastic changes to environmental legislation in China
Serious quality issues	Risks of serious quality issues arising that would cause the loss of social trust	<ul style="list-style-type: none"> Strengthen company-wide response in the event of serious damage arising due to a quality problem Strengthen internal awareness-rising to prevent serious quality problems from arising
Cyberattacks and protection of personal information	Risk of leaks of personal information from intentional acts including cyberattacks or negligence	<ul style="list-style-type: none"> Create response flows in the event of an incident arising and hold drills Strengthen our global framework for information security and protection of personal information
Reputation	Risks that cause value and social trust in our brand to decline due to the spread of critical reviews and misinformation about Kao on social media	<ul style="list-style-type: none"> Strengthen the social media monitoring system Strengthen the emergency contact system used during contingencies
Use of digital media	Risks arising from the release of ads and other communications with inappropriate expressions, stealth marketing, etc.	<ul style="list-style-type: none"> Continuously strengthen internal education, and revise guidelines and the like Develop ad distribution tools to improve and sustain our brand value

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

In light of the COVID-19 pandemic, we strengthened cooperation in the emergency response system between our overseas subsidiaries and the Head Office, and established a response system as One Kao by collaborating with stakeholders beyond the boundaries of companies operating business in each country.

- We conducted a survey of overseas bases to review their response to COVID-19 during the January–June period and any future risks. We shared the issues and risks with each division in charge and provided feedback on the status of response to all bases to enhance their response measures.

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

- Regarding our 22 major divisions and 4 major subsidiaries within Japan, as with our overseas bases, we conducted a survey to review their response to COVID-19 during the January–June period and any future risks. We shared the issues and risks with each division in charge and provided feedback on the status of response to all bases to enhance their response measures.
- At the Risk and Crisis Management Promotion Meeting, we shared and discussed the risk management activities of seven divisions and four subsidiaries in Japan in order to improve the coordination of activities and response to risks.

Strengthening measures against information disclosure

- We quickly applied the revised provisions set by the Cabinet Office Ordinance to disclose information about reviewing main risks and concrete initiatives in “Business Risks and Other Risks” in our 114th Financial Report.
- We worked to connect and enhance the contents of our Financial Report’s “Business Risks and Other Risks” as well as contents included in our Integrated Report and Sustainability Data Book.

Improving employees’ awareness and sensitivity to risk

Through an internal portal site and other means, we communicated our work systems and work styles (increasing remote work and working from home, restricting business trips, trainings and other events, etc.) corresponding to national and local government policy and the status of infections nationally and regionally as part of our crisis management measures for the global COVID-19 pandemic (24 times in total).

In addition, we improved employee awareness and sensitivity regarding infection control by relaying strong messages from President and Chief Executive Officer (14 times within and outside Japan) in relation to measures for critical situations.

At the same time we launched the Infectious Disease Risk Assessment Project in July, providing evidence-based and easy to understand infection control information globally along with thoroughly disseminating measures to be implemented not only at work but at home. Besides this, throughout the year we provided various risk-related information related to the spread of COVID-19, including information security precautions when working from home, compliance precautions and so on.

Main training / drills in 2020

- Comprehensive disaster drills (implemented at major plants around the world)
- Emergency response training and BCP training presumed on a large-scale earthquake (Japan)
- Safety confirmation drills presumed on a large-scale earthquake (Japan)

Crisis response performance (excluding COVID-19 response measures)

- We verified the safety of employees and the extent of damage to worksites in areas affected by heavy rain in July, 2020, and provided emergency supplies for disaster relief in accordance with local government authorities’ requirements.

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Reviews of performance

Regarding the COVID-19 pandemic, we were able to fulfill social responsibilities ensuring the safety of our employees and a continuous supply of hygiene-related products through quick response of our entire company under management team leadership based on our guidelines that we continue to review and our action plan for dealing with pandemic-related risks.

Going forward, we will continue our response to the COVID-19 pandemic as well as clarifying and responding to risks under a state of New Normal.