

Kao's approach

Kao implements risk and crisis management that can respond both appropriately and swiftly to changes in the business environment, to minimize the damage and loss in the unlikely cases where risks become manifest and to prevent the manifestation of risks, on all fronts of business activity.

Kao's creating value to address social issues

The globalization of our business is increasing the complexity and uncertainty of the management environment. With the development of social media, the scale and speed of the impact on business activities when a risk becomes manifest is also on an upward trend.

In light of this situation, Kao has, since 2015, worked on the three following fronts to institute an appropriate management framework: expanding its risk management domains to include not only operational risks but also strategic risks, identifying corporate risks and introducing systems to manage such risks, and bolstering its response framework in the event of a crisis as well as improving crisis awareness. With these frameworks, we aspire towards risk and crisis management that can respond both appropriately and swiftly to changes in the business environment, and to continue providing quality products and services to our customers.

Major risks

- Delayed response to the changing needs of consumers and customers
- Occurrence of major quality issues and concerns over the safety and security of Kao products
- Hindrances to product supply due to natural disaster, spread of infectious diseases or accident
- Restrictions on business activities due to major law violations, regulation changes or additional regulations
- Leak of confidential or personal information, among others etc.

Contributions to the SDGs



Policies

Kao regards the potential negative impact on its management targets and business activities as a "risk" and the manifestation of such risk as a "crisis." Kao appropriately manages the various risks and crises that could occur throughout its overall business activities in accordance with the Kao Risk and Crisis Management Policy.

Risk and crisis management

Framework

At the Kao Group, the Risk and Crisis Management Committee, chaired by an executive officer in charge of risk and crisis management, establishes a system and operating plans for risk management. Each division, subsidiary, and affiliated company ascertains and evaluates risk based on these operating plans and conducts risk management by formulating and implementing appropriate countermeasures. Furthermore, the Management Committee has designated major management risks that would have a significant impact on the group's business as "corporate risks," and executive officers who are in charge of managing such risks formulate and implement the necessary countermeasures. In these ways, the Kao Group is strengthening its group-wide response to risk.

When a crisis occurs, Kao responds promptly 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 a countermeasure headquarters with the President and CEO or executive officer as its general manager to minimize physical damages and financial losses. Management of the above-mentioned risks and crises is reported and discussed at the meetings of the Management Committee or the Board of Directors on a regular basis as well as whenever necessary.

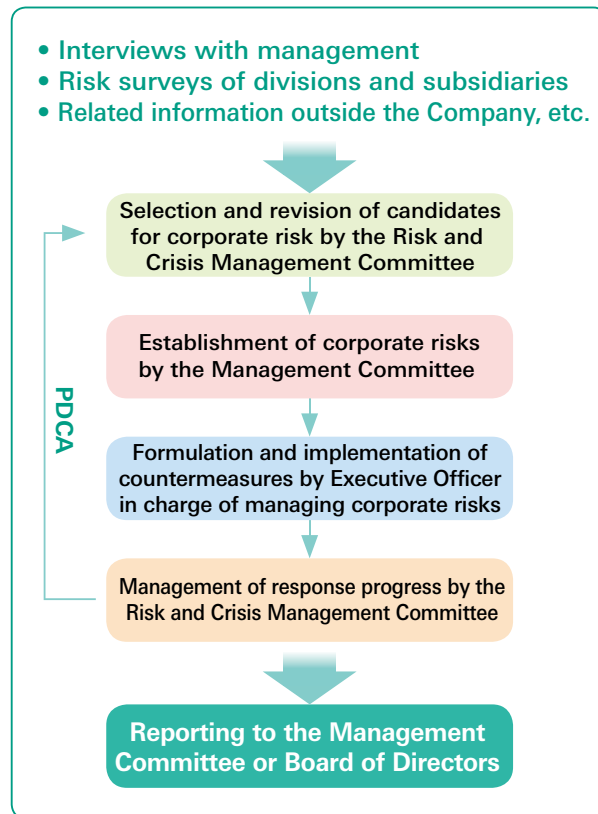
Risk and crisis management framework



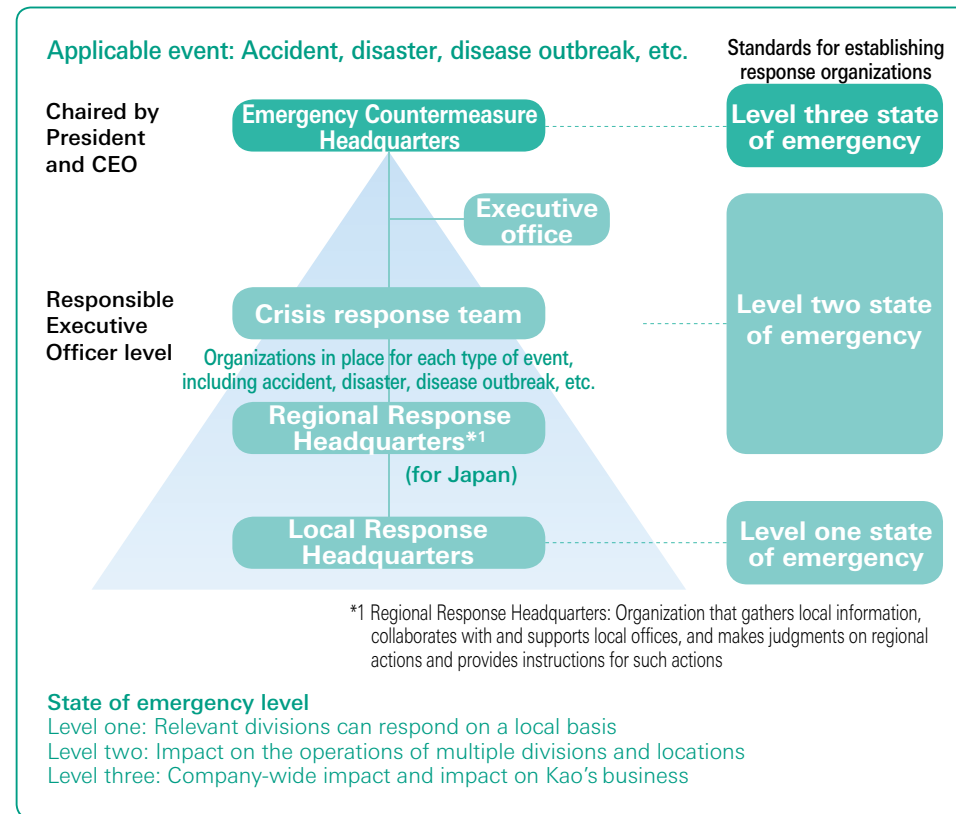
*As of December 2017.

Risk and crisis management

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.

Risk and crisis management

Education and promotion

At each division, subsidiary and affiliated company, persons in charge of risk and crisis management are responsible for making the management framework for the major risks stipulated by the Risk and Crisis Management Committee widely known. Furthermore, risk surveys are conducted at each division, subsidiary and affiliated company to identify major risks and to promote the development and revision of countermeasures on a regular basis, allowing the framework to take root in each site.

We use our internal portal website to indicate the emergency contact and response framework for when a major risk manifests, as well as providing information on issues such as overseas safety, infectious illnesses and information security on a regular basis. In addition, we issue alerts as necessary to raise employee awareness and cultivate a crisis mindset.

At the same time, we conduct emergency response training, comprehensive disaster drills, safety confirmation drills, and external response drills for times of emergency in order to enhance response capacities at times of crisis.

These awareness-rising activities and trainings are implemented for both employees and managers, through which we identify the issues to be addressed and revise the contents in line with changes in the business environment so that we can improve our risk and crisis management capacities.

Mid- to long-term targets and performance

Promotion of superior-level risk and crisis management is required in implementing the Kao Group Mid-term Plan 2020 (K20).

To this end, we are practicing the responses to corporate risk and enhancement of risk response

in subsidiaries and affiliated companies outside Japan. We will also enhance response capacities at times of crisis, aspiring towards viable risk and crisis management.

Performance in 2017

In 2017, we focused on practicing the responses to corporate risk based on progress management of the Risk and Crisis Management Committee. Corporate risk includes risks which impact on management strategy as well as risks which impact on business continuity, such as natural disasters, including large-scale earthquakes or pandemics.

For corporate risks at subsidiaries and affiliated companies outside Japan, we have newly designated major risks and created the framework in which managers at each company promote the PDCA cycle to enhance responses to the risks.

For enhancing response capacities at times of crisis, we developed and revised the guideline and action plan of major risks including corporate risk, as well as informing employees and creating operational frameworks. Furthermore, we enhanced response capacities by implementing response drills at times of crisis, as well as improving our system to collect information and our capacity to analyze them.

As an awareness-rising activity, we use our internal portal website to raise employee awareness.

In particular, we post a monthly Crisis Management Bulletin on our internal portal website, with information on terrorism, large-scale earthquakes or pandemics, as well as precautions for use of social media. Through these activities, we aim not only to raise awareness of emerging risks, but also to facilitate an accurate understanding of risk and an appropriate, swift response when a crisis occurs.

Main training/drills in 2017

- Comprehensive disaster drills (implemented at major plants inside and outside Japan)
- Emergency response training presumed on a large scale earthquake (implemented twice in Japan)
- Safety confirmation drills presumed on a large-scale earthquake (implemented twice targeting all employees of the Kao Group in Japan)
- Emergency reporting training from overseas bases to Kao Head Office in Japan (implemented at 25 overseas bases)