

Kao's approach

Kao implements 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

Concerns about the acceleration of climate change and increase in natural disasters as a result of global warming, as well as concerns about environmental pollution, water resources, and biodiversity have led to heightened consumer awareness toward sustainability and the strengthening of environmental regulations.

Moreover, the development of information and communications technology and widespread use of smartphones in recent years have given rise to the ubiquitous use of social media and the rapid growth of e-commerce. These technologies have significantly changed how people communicate and their purchasing behavior.

At the same time, stakeholders are raising their expectations and demands of companies for corporate compliance, secure information management, human rights protection, respect for diversity, and timely and appropriate information sharing and disclosure.

Kao's creating value

Kao does everything it can to properly manage the many types of risks and crises that may occur across

all of its business activities. We have formulated countermeasures to handle significant risks that have a substantial impact on Kao, aimed at providing better products and services without interruption and maintaining good relationships with consumers, clients, business partners and other stakeholders. We further strive to bring joy and satisfaction to people's lives around the world and contribute to global sustainability.

Risks related to realization of our vision by 2030

It is necessary to manage and respond at a higher level to business operation risks such as product supply issues caused by natural disasters and accidents, quality issues, and concerns about product safety and security.

Also, if incorrect information about the Kao Group or negative comments toward the brand or Kao's corporate image is spread on social media etc., the impact on business tends to intensify. Therefore, it is necessary to take an immediate and appropriate response and the management of reputation risk*.

It is also necessary to respond steadily for strategic risks—risks to be taken for corporate growth—that emerge in such areas as business and

management strategy, overseas expansion, capital investment, the launching of new businesses, and acquisitions.

* Reputation risk: Risks that inflict loss on a company from decline in corporate trust and brand value due to the spread of critical evaluation and rumors against the company.

Opportunities related to realization of our vision by 2030

In order to contribute greater trust in Kao and improved brand value, and helping us to achieve our vision by 2030, it is necessary for us to continue to identify and respond to significant risks may arise from business and social environment change. And these activities need to be disseminated and understood to society.

Contributions to the SDGs



Policies

We regard 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”. We appropriately manage the various risks and crises that could occur throughout its overall business activities in accordance with the response priority detailed in Kao Risk and Crisis Management Policy (1. Protection of human lives, 2. Environmental conservation, 3. Continuation of operation, 4. Protection of assets).

To promote K20 and achieve “What Kao Aims to Be by 2030”, we are stepping up our risk and crisis management in the ways listed on the right.

1

Clarifying significant risks handled by management and building a corresponding response structure

We designated risks that would particularly have a significant impact on our management and which we need to strengthen our response to, as “corporate risks”. Executive officers are responsible for handling these risks.

2

Expanding the scope of target risks

Risk management, which has mainly focused on operational management risks, has been expanded to strategic and reputation risks from 2015, and we are promoting our responses to them.

3

Strengthening response to the materialization of risks

Taking it for granted that risks are revealed, even if they should become apparent, we are strengthening our response structure in times of crisis so that we are able to take prompt and appropriate measures.

Framework

The Risk and Crisis Management Committee, held 4 times a year, 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.

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.

Furthermore, themes and persons in charge of significant risks (corporate risks) to be managed by management are decided through the approval of the Management Committee, based on interviews with management, internal risk surveys (conducted for each division and subsidiary), and others. Corporate risk managers organize response teams, formulate and implement countermeasures, and strive to comprehensively strengthen risk response.

Themes of corporate risk are reviewed annually and the progress of corporate risk activities is reviewed by the Risk and Crisis Management Committee. The risk topics and progress are reported or discussed at the meetings of the Management Committee or the Board of Directors on regular basis (once a year) as well as in a timely fashion.

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 a countermeasure headquarters with the

President and CEO or executive officer as its general manager.

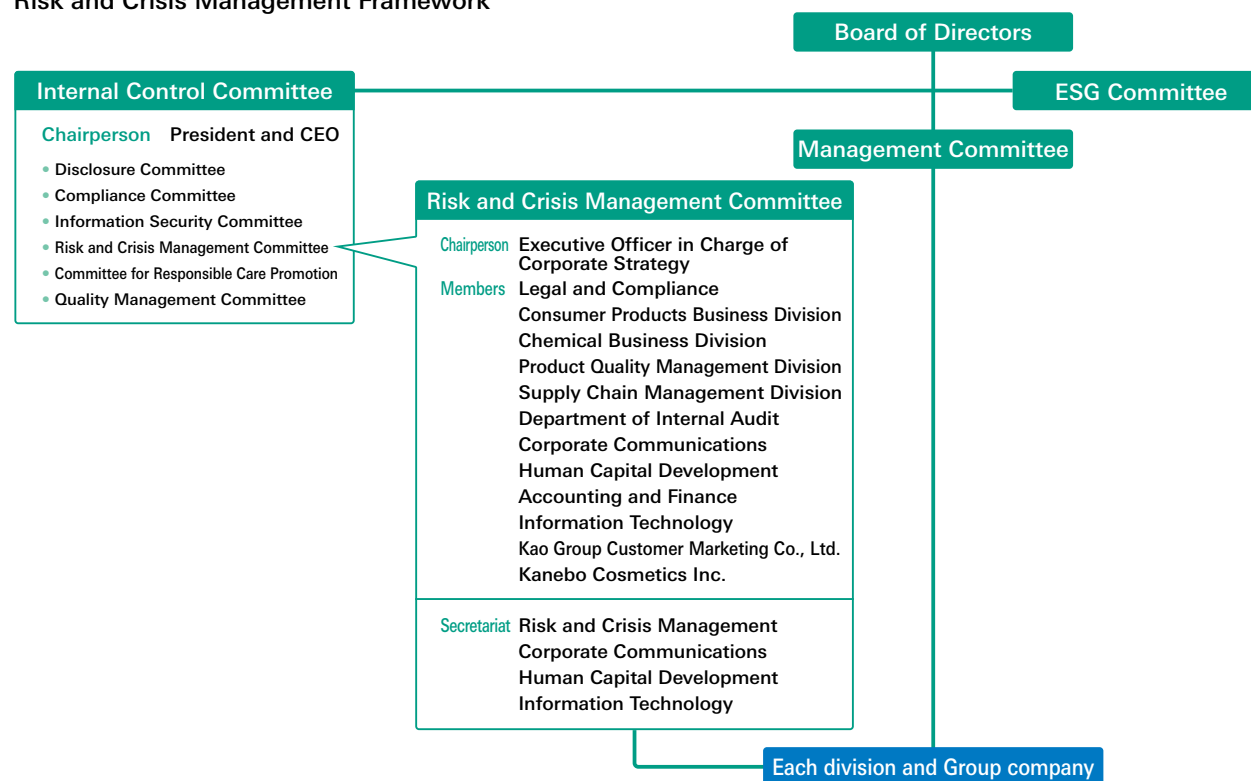
The Risk and Crisis Management Department, which operates independently of Kao's individual businesses, promotes effective management of risk and crisis in all Kao Group member companies. Besides submitting proposals for improvement, the Department also works to identify new risks and risks for which 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 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.

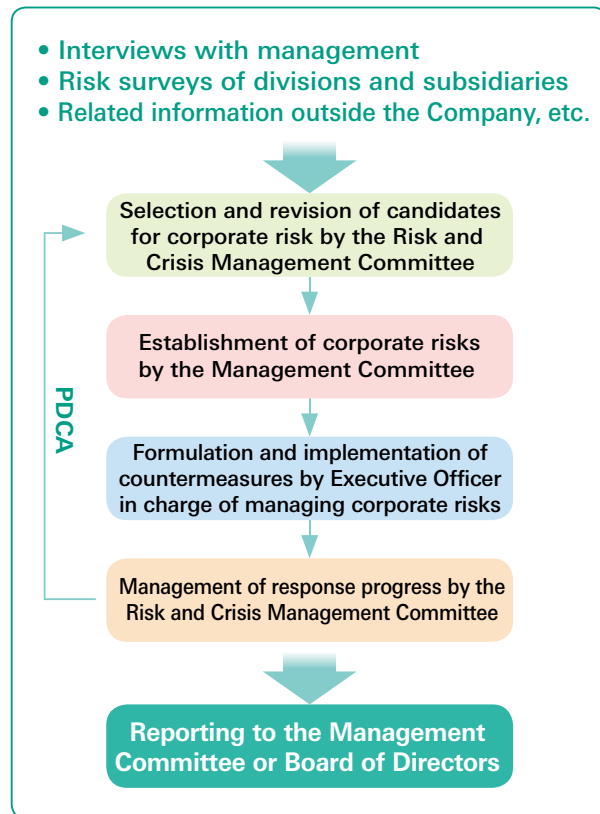
Performance evaluation of the Executive Officer in charge of risk and crisis management and of the Risk and Crisis Management Department incorporates evaluation of the extent to which targets have been achieved in relation to the activities outlined above.

Risk and Crisis Management Framework

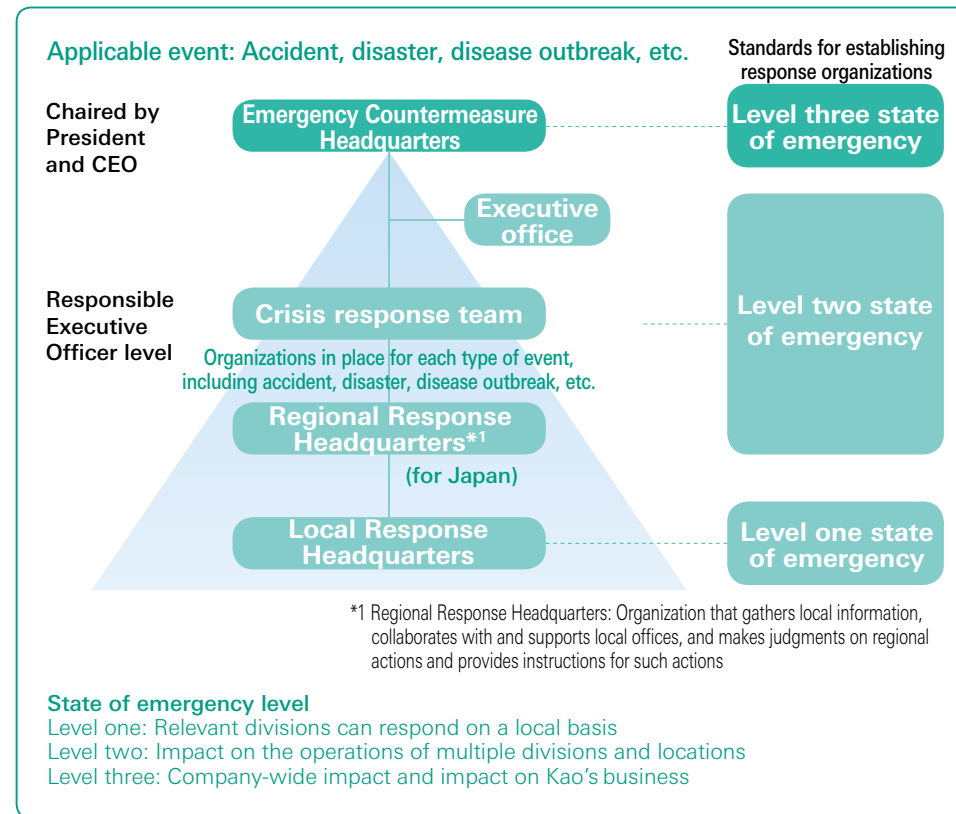


* As of December 2018.

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.

Education and promotion

Establish awareness for risk management structure and its policy

Kao Group (division, subsidiary and affiliated company) risk and crisis management structure ensures each division and organization are aware of significant risks' management structure and its policies which determined by the Risk and Crisis Management Committee. Furthermore, risk surveys and reviews are conducted at each division, subsidiary and affiliated company to identify significant risks and to promote the development and revision of countermeasures on a regular basis, by confirming the progress of these activities, allowing each site to establish risk management structure.

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

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 assist in the revision of countermeasures.

For cross-organizational risks and common risks, the causes of events are being analyzed. The results of the surveys are fed back to each division and subsidiary to promote ongoing improvement in the risk management capabilities of the organization and its employees.

Providing information on risks

We provide emergency contact and the 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 a immediate, appropriate response in the event of a crisis. The Report includes such information as how to prepare and respond to reputation, terrorism, large-scale earthquakes, or pandemic, as well as the usage of social media. By calling attention to issues as they arise, we are working to heighten crisis awareness and foster a proactive risk culture.

Crisis response training

To improve our ability to respond to a crisis, we regularly conduct emergency response training, comprehensive disaster prevention drills, and safety confirmation drills once or twice a year.

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.

- Clarify significant risks (corporate risks) to be managed and strengthen its response structure.
- Expand the scope of target risks (response to strategic risks, reputation risk).
- Strengthen the ability to respond when risks become realized.

Important Initiatives in 2018

- Strengthened our practical ability to respond to corporate risks.
 - Established PDCA cycle for managing significant risks at overseas subsidiary and affiliated company.
 - Enhanced our ability to respond to emerging risks that occur in the changing business environment.
 - Improved employee awareness and sensitivity to risk.
- etc.

Performance in 2018

Performance

Implementation of corporate risk response reinforced

In 2018, we reviewed the themes of corporate risk as follows, in light of changes in the business environment. Then we strengthened our practical ability to respond to risks based on progress management of the Risk and Crisis Management Committee.

- Large-scale earthquakes and other natural disasters
- Personal information protection
- Pandemics
- Exchange rate fluctuations
- Reputation
- Response to product quality issues
- Change in structures of sales channel
- Risks associated with the use of digital media
- Risks related to business in Asia etc.

Strengthening significant risk management at overseas bases

Regarding risk management at the subsidiaries outside Japan, their management is promoting risk management by selecting significant risks and examining countermeasures against them. In 2018, we established PDCA cycle for risk management through coordinating risk management at each of our subsidiaries with activities regarding corporate risks and our responsible department in Japan.

Improved ability to respond in a crisis

We disseminated guidelines, formulated action plans,

and put in place a response structure for significant risks, including corporate risks. We improved our information collection system and analysis capabilities, and also implemented response training to strengthen our response capabilities in the event of a crisis.

Improved employees' awareness and sensitivity to risk

One educational initiative is the use of the internal portal website to heighten crisis awareness among employees. 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 information, including information on strategic risks, corporate scandals, natural disasters, warehouse fires, infectious diseases, reputation risks, personal information management and cautions for overseas business trips.

Emerging risks

During the review of corporate risk topics in 2018, discussions were held about new risks.

Due to the ocean plastic waste problem in recent years, global monitoring the use of plastics in products, and product containers and packaging have been intensified, and regulations in each country on the use and disposal of plastics have been tightened. In addition, with the rapid expansion of digital media, the way that companies communicate with consumers has also changed dramatically. We believe there needs to be greater aware of the risks associated with an expanded use of digital media for marketing and other purposes.

At the same time, international trade conflicts have also developed in other fields such as technology, and are now more complex. Accordingly, it is now necessary to pay attention to the impact on business activities resulting from both increasing raw material costs and the tightening up of regulations. We are making more efforts to respond to these changes in terms of both opportunity and risk.

Main training/drills in 2018

- Comprehensive disaster drills (implemented at major global plants).
- Emergency response training presumed on a large-scale earthquake, BCP training (implemented twice in Japan).
- Safety confirmation drills presumed on a large-scale earthquake (implemented twice in Japan).
- Personal information leak response training.
- Emergency reporting training from overseas bases to Kao Head Office in Japan (implemented at 25 overseas sites).
- Japan-based media training and risk communication training.
- High-risk area business trip training, security assessments (overseas sites).

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).