

Effective corporate governance 102-12, 102-15, 102-16, 103-1, 103-2, 103-3

We will steadily implement our ESG Strategy by examining our corporate governance system whenever necessary, and conducting fair and honest business activities while acting in accordance with laws and ethics and responding to changes in society. All of this will contribute to making Kao a company with a global presence, valuable to society. In this chapter, we will introduce our activities to practice Integrity, which is the foundation of our corporate culture supporting corporate governance. Please see p. 255 for more information about the Kao Group's corporate governance.

Kao's concept of effective corporate governance

Integrity, the foundation of our corporate culture

We promote day-to-day activities based on the recognition that Integrity, which has been handed down from our founder, will enhance the effectiveness of corporate governance. In addition to corporate governance initiatives (p. 255), we believe it is essential that each and every employee support corporate activities.

Kao's creating value to address social issues

Social issues we are aware of

The spread of COVID-19 has forced rapid change in both living and working environments, and as telecommuting becomes the norm, new issues have arisen that must be addressed, including work styles, employee communication, remote sales activities and increased security risks. The direction of the pandemic remains hard to predict, but having gradually become accustomed to this changing environment, we have moved to the stage of how best to move forward with our business activities despite concerns about the spread of infection, and we believe we will need to

conduct activities with the expectation that additional problems may arise.

In this changing situation, we believe it is important for the advancement of society to furnish a structure that enables us to grasp change in a timely, appropriate manner and respond flexibly, and while preparing for risks, to realize employee-friendly, efficient, productive workplaces where all employees are treated equally. As such, we will continue to implement initiatives aimed at the thorough prevention of harassment of all kinds.

Risks related to realization of What Kao Aims to Be by 2030

In this era of VUCA*, change is often difficult to anticipate, and any delay in responding to environmental change entails the risk of declining competitiveness. We also believe that failure to leverage diversity also entails the risk of delayed awareness of change.

* Volatility, Uncertainty, Complexity, Ambiguity

Opportunities related to realization of What Kao Aims to Be by 2030

Since our founding, we have promoted corporate activities based on Integrity (acting in accordance with laws and ethics, and conducting fair and honest business activities), which is one of our most

important values. As a result, we have been evaluated highly by society for sustainability and compliance. This leads to increasing trust on the part of consumers, shareholders and other stakeholders in our products and our company, and also makes it easier for us to hire and retain talented human capital.

Kao's creating value

We see our mission as contributing to society through *Yoki-Monozukuri*, based on contributing to the SDGs in our business activities with our value of Integrity. By continuing to flexibly adapt to the demands of society in a rapidly changing environment, we will maintain our thorough practice of *Yoki-Monozukuri*.

We are also creating workplaces with an open atmosphere that allow talented human capital to fully demonstrate their abilities on an equal standing.

Contributions to the SDGs



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Policies

In our revision of the Kao Way for 2021, we have established “Integrity as the only choice” as the first of our fundamental values. We regard our value of Integrity as the starting point of compliance, and promote it as a foundation for earning the respect and trust of all stakeholders.

To ensure greater efficacy of the Kao Business Conduct Guidelines (BCG) that embody Integrity, we are implementing activities focused on reducing serious compliance risks, and activities designed to create an open workplace atmosphere that allows improprieties that have been discovered to be immediately reported to management and an appropriate response to be taken promptly.

Regarding bribery, which is a compliance risk, we have clearly stated our strong anti-bribery stance in the BCG and established the Kao Anti-bribery (anti-corruption) Guidelines, which specify the monetary standards and prior reporting obligations for giving and receiving of entertainment and gifts as well as rules for preventing corruption, including evaluating bribery risks when selecting distributors and renewing distributor contracts.

Our marketing and advertising activities include fair content and appropriate statements based on facts, avoid exaggerated statements concerning our impact on society and the environment, and take into consideration a wide range of people, including those who could be considered socially vulnerable. We also ensure that information relating to competitors and competing products is not provided to consumers.

Furthermore, we make it clear that there is a zero tolerance policy for discrimination and harassment, that is, we will not tolerate any form of discrimination or harassment of

employees or other workers, including language or behavior that undermines or insults their human rights or character.

We are continuing to implement educational and training activities, including the dissemination of messages from senior management, so that every individual employee will recognize their own personal responsibility in relation to compliance, will be aware of the BCG’s stipulations regarding how they should act, and will take action based on awareness of the need for compliance risk prevention in their own work, and so that we can realize the creation of an employee-friendly workplace that embodies concern for others.

Education and promotion

The realization of workplaces with an open atmosphere in

which every individual employee is fully aware of the need to prevent compliance violations from occurring, and in which compliance violations that have been discovered are reported immediately and prompt action taken to deal with them, and of employee-friendly workplaces that embody concern for others, forms part of What Kao Aims to Be by 2030.

To realize this vision, we expect every single employee to be aware of the harm that compliance violations can cause and of the impact they can have on the trust that people place in Kao. We expect managers to be aware of the types of compliance risk that could emerge in their own workplace, and to take steps to minimize such risks. We also expect employees to respect the diversity of the people working together with them in the same workplace, and to recognize the importance of showing consideration for others in the way that you speak and act, in order to realize a workplace

Compliance training system

Region	Theme	Target group	Objective	Frequency
Globally common	New Employee Orientation	New employees	Study our compliance approach and the BCG	On joining
	Manager training	Japan: New managers Outside Japan: Managers	Group work to build managers’ awareness for compliance risk reduction	Japan: At time of promotion to manager Outside Japan: Every 3 years
	Trainings by division leaders	Managers / Non-manager employees	Division leaders directly communicate the message to employees to make compliance relevant to them personally	Once every 2 years (alternate each year between Japan / outside Japan)
	BCG refresher test + compliance awareness survey	Executives / Managers / Non-manager employees	Revisit the BCG and identify divisions with high compliance risks	Once every 2 years (alternate each year between Japan / outside Japan)
	Compliance Message	Managers / Non-manager employees	Periodically revisit and review the importance of compliance	Annually
	BCG Casebook	Managers / Non-manager employees	Study the BCG using specific cases	Revise after revisions to the BCG
	Compliance case studies	All employees	Study compliance points to keep in mind through cases at Kao and other companies	Japan: Every month Outside Japan: Twice a year (April, October)
Japan	(1) Basic course (2) Leading staff level summary training	(1) Employees in their third year (2) Leaders	(1) Study compliance and BCG content that should be given particular attention in SCM (2) Division work using specific cases	(1) Third year at the company (2) At time of promotion
	Executive training sessions	Executive officers and above	Learning about legal and compliance risks from a management perspective	Annually
Outside Japan	Integrity Workshop	New employees	Study the BCG’s content using examples related to each topic and in a group discussion format	Once within 3 years from joining the company

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environment that is easy to work in. With this in mind, we implement education as appropriate based on the training system outlined on p. 156. Through this education, we provide opportunities for employees to enhance their awareness, which in turn can help employees to recognize compliance as something that is directly relevant to them personally. We also urge employees to make effective use of the compliance hotlines that we provide when they are unsure of the best course of action to take.

Kao Group employees take compliance training designed to learn their role when those roles change significantly, including when they join the company, when they are promoted to managerial positions, and when they assume responsibility for subsidiaries outside Japan.

In addition, all employees participate in the training organized by the leader of their division and take a BCG refresher test to periodically give them opportunities to review and maintain their awareness for compliance. Furthermore, the Compliance Committee Chairperson and division managers send out an annual Compliance Message to communicate the importance of thoughtful words and actions as well as an open organizational culture. Education related to laws and ordinances is planned and conducted by designated managing divisions.

Collaboration and engagement with stakeholders

The BCG clearly states the need for gaining understanding and support for the BCG among vendors as well and encouraging conduct based on this.

We believe that there is a serious risk that compliance violations by suppliers can lead to quality issues and loss of trust in Kao products, and so we are implementing initiatives that prioritize focusing on suppliers of raw materials, contract manufacturers, and contractors engaged in product manufacturing on Kao Group premises.

In particular, because suppliers' failure to safeguard employees' human rights, leading to dissatisfaction, is a major factor in compliance violations, we are promoting measures to prioritize respect for human rights. The specific initiatives being implemented are outlined below.

1. The annual meetings that we hold with suppliers include presentations on the content of our BCG, and also lectures by experts on topics relating to compliance.
2. Grasping social needs through external surveys and necessary activities

Each year, based on responses received on external questionnaires, we recognize and grasp changes in society through the content of the questions, and establish and pursue activity goals for the following year based on those changes.

3. The compliance hotlines are staffed by outside clinical psychologists and independent lawyers with no advisory relationship with the company. Since they are independent from the company, each hotline reports only the number of cases on a monthly basis, but each understands the case content and provides any necessary advice and consulting. As an external party interfacing directly with our employees, the hotlines establish regular opportunities, once or twice a year, to exchange views on any organizational climate concerns they feel have been raised by our employees.

Framework

We have set up the following framework to implement the PDCA cycle for compliance, and to respond appropriately to reported incidents. The PDCA cycle framework consists of policies, an annual plan and specific activities to implement these devised by the Compliance Committee, comprising division leaders and other members, and its secretariat, with directives for implementation given to persons responsible for divisions and subsidiaries. The activities are evaluated by the Board of Directors among others, and the evaluations are used to inform improvement activities. The framework for responding to reported incidents involves a shared group hotline, the Compliance Committee, which receives hotline reports, investigation by the Compliance Committee or the person responsible for compliance promotion at subsidiaries, and the necessary corrective measures taken to resolve matters.

We have also put in place a framework for encouraging individual units at the worksite level to report compliance violations and suspected compliance violations, thereby contributing to early resolution of issues, by clarifying the rules governing initial reporting of compliance violations and suspected compliance violations.

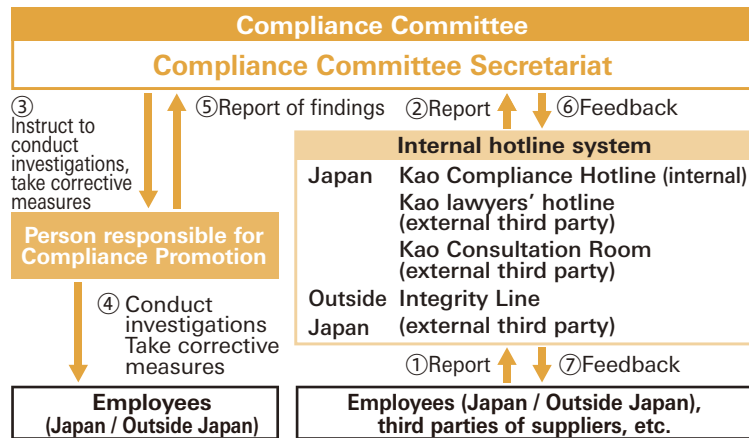


Kirei Lifestyle Plan—Kao's ESG Strategy > ESG
governance structure

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Response process for compliance hotline reports



Rules for initial reporting of violations



Philosophy, strategy & framework

Making my everyday more beautiful

Making thoughtful choices for society

Making the world healthier & cleaner

Making the right path

Fundamental section

Appendix

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PDCA cycle to continuously improve compliance

Compliance promotion activities are implemented using the PDCA cycle shown below. The Compliance Committee creates the policy and annual plan, and the Compliance Committee Secretariat breaks it down into specific activities that are then implemented. The implemented activities are evaluated, and identified issues and improvements are reported to inform the planning to be drafted from the following year onward.



Plan / Do

We have established the Compliance Committee, chaired by a Managing Executive Officer, and comprised of representatives of relevant divisions and affiliated companies.

This committee meets every three months to review the following activities and devise promotional measures to mitigate serious compliance risks and ensure Integrity.

1. Decide the activities policy to ensure Integrity
2. Finalize the establishment and revision of the BCG and other internal compliance-related rules and regulations
3. Decide on the annual plan for educational and awareness-raising activities to instill and establish Integrity within and outside Japan
4. Confirm the operation and response status of compliance hotlines

We also propose necessary amendments to compliance-related rules and regulations and make an annual activities report to the Board of Directors.

The Compliance Committee has a secretariat led by the Compliance Department. At the secretariat meeting held each month, members of the secretariat confirm and review the appropriateness of responses to all reports made to compliance hotlines both within and outside Japan. They also draft and implement plans for specific activities and promote activities in accordance with decisions by the Compliance Committee. The Compliance Committee then shares a summary of its discussions at the following month's Executive Officers Meeting.

Check

Internal evaluations

The Board of Directors is provided with an annual activity report through the Internal Control Committee.

The Board of Directors monitors and evaluates these activities, and its evaluation and opinions are used to improve the activities through the PDCA cycle.

Issues identified from compliance hotlines

At the monthly secretariat meeting, themes that may repre-

sent emerging issues for the company are identified based on the trend of incidents for that month, and any necessary action is taken, including framework changes, internal education and awareness promotion.

Issues identified from risk surveys

We conduct a risk survey that includes compliance risks every year, and identify risk areas and specific risk scenarios based on the results, after which we take the necessary steps while coordinating with the relevant divisions.

Employee survey

The Compliance Committee conducts biannual surveys of group companies within and outside Japan to determine the level of openness in each organization. Based on the organizational culture trends we identify from these surveys, we create opportunities to hear more about specific workplace situations, and take any action required.

New initiatives aimed at invigorating and reforming the corporate ethos

As part of the Objectives and Key Results (OKR) adopted in 2021 as a new strategy to energize our employees, we clarify what individual employees should be seeking to achieve and become, get employees to set targets for themselves through a repeated process of dialogue with supervisors and colleagues, and encourage them to challenge themselves.

Within the OKR, we also set targets for activities aimed at helping to realize employees' vision of what each organization should be. Through this process of goal-setting and regular dialogue, which has replaced conventional opinion surveys, we are promoting the solving of problems and improvement of the corporate ethos within each organization, and strengthening the links between employees.

External evaluations

Feedback from third-party organizations, external evaluation organizations, etc.

By answering socially responsible investing questionnaire items that incorporate societal expectations and exchanging information with other companies, we incorporate items where we have not yet taken action into the next year's activities as necessary.

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Mid- to long-term targets and performance

Mid- to long-term targets

1. Contribute to *Yoki-Monozukuri* through a commitment to Integrity and prevent incidents of damage
2. Minimize damage by creating workplaces with an open atmosphere that allows improprieties to be reported at an early stage and the appropriate response to be taken
3. Maximize utilization of human capital by ensuring that people's language and conduct are considerate of the other person's position and by creating workplaces in which all people are able to work on an equal standing

2030 long-term targets

- Establish and maintain our legal compliance structure within and outside Japan to ensure consistent *Yoki-Monozukuri*
- Conduct activities focused on high-risk areas to efficiently prevent serious compliance violations
- Clarify the reporting rules and make them well-known and followed to promote early reporting and appropriate handling of improprieties
- Establish our policy related to harassment prevention and other necessary internal regulations, and make them well-known and followed, to realize workplaces where people find it easy to work

Anticipated benefits from achieving mid- to long-term targets

Business impacts

- Avoid incidents of loss due to improprieties and reduced trust in Kao products
- Minimize damage by avoiding expanding or prolonging impacts by discovering improprieties at an early stage and taking an appropriate response
- Realize high-quality outcomes more efficiently and retain, hire and fully utilize talented human capital by creating work-friendly workplaces for employees

Social impacts

- By preventing improprieties and realizing higher quality outcomes, provide products and services through improved *Yoki-Monozukuri* including a focus on the environment
- Contribute toward the realization of clean, enriched lifestyles and toward the achievement of the SDGs, including those relating to environmental conservation, through the provision of the products and services outlined above
- Maintain and improve the trust placed in us by stakeholders starting with shareholders and society

Effective corporate governance ⁴⁰⁴⁻²

Performance in 2021

Performance

1. Activities to reduce compliance risks

Legal compliance structural reorganization

We have clarified the managing division for promoting compliance with approximately 250 laws and ordinances that apply to our worksites in Japan. At the beginning of 2021, with the aim of reducing serious compliance risks, we established four themes: (1) proper working environment (unpaid overtime prevention), (2) compliance of the Fire Service Act, (3) power harassment prevention, and (4) fair transactions with business partners. Appropriate measures were then implemented, centering on the responsible divisions.

In addition, we prioritized and thoroughly reviewed the legal compliance structures of divisions with responsibilities relating to important laws and regulations in foreign countries.

Analysis of underlying causes in cases requiring particular attention, and thorough implementation of policies to prevent recurrence


We identify any important organizational issues raised through whistleblowing, and work to mitigate these issues as an organization by examining their causes in depth, summarizing them, and confirming policies to prevent their recurrence.

2. Educational activities to foster and establish compliance awareness

- Conducted a new type of compliance training for newly appointed managers in Japan to discuss

compliance risks that may arise when OKR management methods are ineffective

- Implemented BCG refresher tests and related opinion surveys in Japan
- Changed the name of the former Compliance Awareness Month to the Compliance Message in August 2021, and disseminated messages and other information from the chairperson of the committee, the heads of each functional division and the presidents of overseas group companies
- Posted compliance case studies monthly in Japan and twice a year in other countries via the company intranet to promote understanding through specific case studies


 Our initiatives: Compliance Message
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3. Compliance promotion system development

With the following measures, we have put in place a system designed to reduce risk by detecting compliance-related problems at an early stage and appropriately resolving them.

- Serious compliance issues are reported quarterly to the Compliance Committee, the Executive Officers Meeting, the Audit & Supervisory Board Members, and where necessary, the Board of Directors, for evaluation as to the appropriateness of actions taken.
- We adhere to the Rules for Operating Compliance

Hotlines, to strengthen trust in the compliance hotlines and enable employees to use them with peace of mind. Ahead of the June 2022 implementation of revisions to Japan's Whistleblower Protection Act, we plan to reiterate our commitment to thoroughly protecting the confidentiality of whistleblowers and consultants, not attempting to identify them, and not treating them unfavorably.


 Our initiatives: Compliance hotline operational status and
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4. Evaluation activities

- In Japan, we conducted a compliance awareness survey to measure how well-established compliance activities are, and the atmosphere at workplaces.
- We identified issues and conducted improvement activities through information exchanges with other companies and responses to external evaluation survey.

5. External evaluations

In our FY2021 activities, we were again recognized as one of the World's Most Ethical Companies®.

 Our initiatives: Sixteen consecutive years on the
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Reviews of performance

Issues and response measures concerning mid- to long-term targets

1. Contribute to *Yoki-Monozukuri* through a commitment to Integrity and prevent incidents of damage

In addition to promoting strict legal compliance activities to reduce serious compliance violations, we identify organizational issues triggered by whistleblowing that require close attention. We are promoting activities to encourage a sense of direct connection on the part of the division where the incident occurred, by making the division responsible for investigating the causes in depth, summarizing the incident, and confirming measures to prevent recurrence. Going forward, we will identify priority issues and continue responding to them.

2. Minimize damage by creating workplaces with an open atmosphere that allows improprieties to be reported at an early stage and the appropriate response to be taken

Despite giving instructions regarding the need for prompt reporting when a compliance case is identified, there have been cases where reporting has been delayed, and so we have taken even more thorough steps to ensure widespread awareness of and compliance with the rules regarding initial reporting.

3. Maximize utilization of human capital by ensuring that people's language and conduct are considerate of the other person's position and by creating workplaces in which all people are able to work on an equal standing

With regard to workplace bullying, etc., we have implemented initiatives that focus on preventing reoccurrence. Specifically, the whistleblowing described in Item 1 above was used as a starting point to identify organizational issues requiring close attention, and the division where the incident occurred conducted an in-depth investigation into its causes to ensure that measures were formulated and implemented to prevent recurrence.

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Our initiatives

Revision of the Kao Business Conduct Guidelines and utilization of compliance-related rules

The BCG serve as our code of conduct for practicing the Kao Way, our corporate philosophy. The content is regularly revised based on expectations from society, our circumstances and other factors, and was most recently revised in April 2019.

To broaden BCG awareness, we have compiled the BCG Casebook in a Q&A format and shared it with companies in 17 languages, including Japanese and English.

The BCG explicitly defines anti-corruption compliance regardless of the identity of the other party and bans facilitation payments, which are payments of small amounts made to individual government officials. Making political donations is also prohibited in the BCG and in the Donation Guidelines. Moreover, the Kao Anti-bribery (anti-corruption) Guidelines, which describe the approval procedures and rules for giving and receiving of entertainment and gifts and notification procedures relating to invitations to government officials, have been adopted, including at the group companies outside Japan.

In addition to the above, the Kao Guidelines for Avoiding Conflicts of Interest have also been adopted at the group companies both within and outside

Japan, and require approval or notification in situations of individuals having involvement in competition or transactions with group companies, investments in companies that engage in such competition or transactions, financial loans and so on with group companies, and close relatives engaging in such acts.

Annual confirmation

Once a year, we confirm the submission of reports to the Compliance Committee Secretariat regarding matters pertinent to the Guidelines for Avoiding Conflicts of Interest and the Anti-bribery (anti-corruption) Guidelines with respect to members of the Board of Directors, the Audit & Supervisory Board Members, officers and employees.

In addition, we investigate the function of the Anti-bribery (anti-corruption) Checklist used when selecting new cross-border distributors and new intermediaries or renewing contracts with existing ones.

Expenditures to trade associations and political organizations

Through our participation in committees, working groups, etc. of trade associations, we convey opinions that could influence enactment and revision of laws to the government. Apart from membership fees to these trade associations, it was verified that no donations were made regarding political campaigns

or organizations, lobbying, trade associations, tax-exempt entities or other groups whose role is to influence political campaigns or public policy and legislation in 2021.

Expenditures to trade associations and political organizations

Unit: millions of yen

	2020	2021
Trade associations	498	485
Lobbying activities	0	0
Political contributions	0	0
Total	498	485

Expenditures to major trade associations

Unit: millions of yen

	Expenditures
Japan Soap and Detergent Association	35
Der Verband der Chemischen Industrie	26
Personal Care Products Council	22

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Compliance Message

To encourage employees to view compliance activities as directly relevant to them, top management sends out Compliance Messages to promote compliance activities within and outside Japan.

In 2021, the Compliance Committee Chairperson published the Compliance Message, "Dialogue fosters mutual respect and makes workplaces exciting." We promoted activities to realize an enthusiastic workplace atmosphere by building awareness for workplace communication that gives consideration to others' feelings.

In addition, the Compliance Committee Chairperson's message was posted on the company intranet and on posters. Regional leaders and company presidents globally published case studies, and starting this year, Compliance Messages and other communications were issued by the heads of domestic functional divisions.



Employees' voice

Compliance initiatives in the KCMK Group*

Mayumi Sunada

Compliance,
Human Capital Development,
Kao Group Customer Marketing Co., Ltd.



We strive to maintain a good balance between case handling and awareness-raising activities to promote understanding. We aim for speedy case response and resolution, and take the feelings of informants into consideration during this process. We strive to achieve so our information is easy for all employees to understand, and provide information in a timely manner, so every employee can see our awareness-raising activities as personally relevant. (Published on KCMK Compliance Hotline)

We will continue the above efforts with all members, with the aim of creating an open workplace environment where every employee can practice Integrity.

* KCMK Group (three companies: Kao Group Customer Marketing Co., Ltd., Kao Beauty Brands Counseling Co., Ltd., Kao Field Marketing Co., Ltd.)

Compliance hotline operational status and 2021 regulatory violations

According to the needs of each country and region, group companies have established either both internal and external compliance hotlines or only external hotlines. (See diagram on p. 158 for details.)

In operating the hotlines, after confirming the caller's wishes, companies take steps to respect the individual's privacy and strive to the maximum extent possible to ensure that callers suffer no retaliation or disadvantage as a result of their good-faith consultation. In principle, companies also receive the caller's consent when an investigation of related parties is conducted. Anonymous inquiries are accepted, but callers are encouraged to identify themselves to facilitate proper investigation.

In addition, as noted above, we clarified the rules governing initial reporting of compliance violations and suspected compliance violations, and have put in place a framework for receiving reports from individual units at the worksite level.

In 2021, there were 424 reports made to the hotlines (including group companies outside Japan). Although the number of cases increased from the previous year, we recognize that this is due to the increased awareness of employees as a result of the BCG refresher test and compliance awareness survey,

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which are conducted biannually. A breakdown of reports showed that items related to harassment, including workplace bullying, represented roughly 30% of reports, while items including those related to miscommunication at workplaces, working conditions and employment, represented around 40%, and items related to violations of laws and regulations represented around 20%. Together, these three categories comprised approximately 90% of reports. Violations of laws and regulations include many that are discovered during internal control inspections.

No particular trends were observed in the organizations, worksites or occupations to which callers belonged.

Under “Walking the right path” in the Kirei Lifestyle Plan announced in April 2019, we set the indicator of zero serious compliance violations.

These serious compliance violations refer to compliance violations that significantly impact management and result in significant loss to our corporate value. Taking into consideration the malicious nature of the violation (importance / seriousness of the legal infraction, its underlying intent, the span of time over which the violation occurred, and its organizational scope), as well as its internal / external impact, opinions are solicited from the Compliance Committee Secretariat, Compliance Committee and Audit & Supervisory Board Members. The Management Board reviews these opinions, and its conclusions are reported to the Executive Officers

Meeting and the Board of Directors.

In making this determination, all cases reported by the compliance hotlines and management lines are reviewed at the weekly meeting to identify themes that should be recognized as issues for the company. After consideration and as part of its monthly meetings, the Compliance Committee Secretariat designates cases with potential to recur or spread throughout the company as cases requiring close attention. It also identifies potential serious compliance issues from among any violations of laws and regulations that may have occurred. During this process, the committee secretariat receives third-party evaluations and recommendations from outside attorneys who attend its meetings as advisors. The division where the incident occurred will examine its causes and background, formulate and practice measures to prevent recurrence, and submit a summary report to the Compliance Committee. After a process of receiving evaluations and recommendations from each committee member with respect to the report, a final verdict is made on compliance violations that have a significant impact on management and significantly damage corporate value. There were 424 compliance reports and consultations in 2021. Of these, 209 cases were investigated due to material concerns relating to noncompliance, while 192 cases were subject to some form of corrective action or recurrence prevention, including review of business processes,

organizational awareness-raising and verbal warnings to the individual involved. These matters were discussed and reviewed at the Compliance Committee Secretariat, the Compliance Committee and the Management Board, and no major compliance violations corresponding to the above were found.

In addition, there were 8 cases of power, sexual and other forms of harassment by individual employees, and a total of 30 cases within and outside Japan in which employees were dismissed or took advisory retirement due to misconduct such as improper transactions, improper work records, smoking or drinking during working hours and theft.

Compliance violations are divided into three categories: (1) those that must be addressed as organizational issues, (2) those requiring improvement of individual awareness, and (3) those discovered during the PDCA cycle of control activities. We strive to prevent recurrence through such means as verifying the appropriateness of the recurrence prevention measures prepared by the generating department by the Compliance Committee Secretariat or the Compliance Committee.

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Sixteen consecutive years on the World's Most Ethical Companies® 2022 list

In March 2022, Kao was recognized as one of the World's Most Ethical Companies® 2022 by the U.S.-based think tank Ethisphere Institute. We have been named to the list 16 straight years since the award's inception in 2007. We are the only Japanese company, and the only manufacturer of fast-moving consumer goods and chemicals in the world, to be honored for 16 consecutive years.

Selection of companies for the list is based on the evaluation of five factors: (1) Corporate Ethics and Compliance Program; (2) Corporate Citizenship and Responsibility; (3) Culture of Ethics; (4) Corporate Governance; and (5) Leadership, Innovation and Reputation.

This recognition reflects the fact that the spirit of Integrity passed down from our founder continues to be implemented by all Kao Group members in day-to-day operations through practice of the Kao Way and the BCG.



Sharing our insights on compliance with outside groups

In 2021 the Executive Officer holding the position of Senior Vice President of the Legal and Compliance lectured on corporate legal affairs and compliance under the impact of COVID-19 at a meeting attended by corporate legal professionals from Japan and China. In addition, at an event organized by a corporate legal organization and attended by approximately 100 enterprises, we participated in a dialogue on human capital development of young corporate legal professionals and a roundtable discussion with a major accounting firm on efforts to foster an ethical culture. We also held lectures on the role of corporate legal affairs, including corporate governance, at two universities and three law schools.

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Stakeholder engagement



Naotaka Kawamata

Attorney,
Marunouchi Sogo Law Office

Company awareness of issues and activities

While handling matters reported by the compliance hotlines and the management line appropriately, we identify themes to be recognized as company issues and take appropriate actions in parallel with these activities. Based on the background of the occurrence and a shared awareness of the problem, the monthly Compliance Committee Secretariat meeting identifies cases with potential to recur or spread throughout the company, designates them as requiring close attention, and continues activities to prevent them from becoming serious violations by appropriately identifying the seeds of compliance violations in the company. The division where the incident occurred will examine its causes and background, formulate and practice measures to prevent recurrence, and submit a summary report to the Compliance Committee. Based on the committee's multifaceted evaluations and recommendations, the division concerned then implements improvement activities.

Thoroughly analyze root causes and respond

A secretariat was established as a subordinate organization of the Compliance Committee, and secretariat meetings are held once a month, with members from the Compliance Department and other supervising divisions. I also attend the secretariat meetings as an advisor.

The Kao Way, Kao's corporate philosophy, establishes Integrity, the final instruction of its founder Tomiro Nagase, as the basis for values unique to Kao, and Integrity is positioned by the Compliance Committee (Secretariat) as the starting point for compliance. It is easy to call for Integrity, but for a company that pursues efficiency and individual optimization at each worksite, it is also easy to imagine that Integrity can entail considerable challenges.

The Compliance Committee (Secretariat) handles compliance cases, including those reported through the compliance hotlines, and strives to discover and analyze the underlying causes (root causes) behind the cases, rather than merely taking superficial measures in response to issues specific to the offending party. If we identify causes that could lead to noncompliance, such causes must be eliminated to prevent recurrence. However, if the causes of noncompliance lie in the daily work system itself, then unless that system is changed,

noncompliance will recur somewhere.

Furthermore, changes to the work system itself are expected to generate significant resistance from each worksite, since it would mean changing individually optimized work systems. The Compliance Committee (Secretariat) will likely face the challenge of finding ways to persuade and adjust. It is not an easy task to analyze the root causes of a problem and proceed to develop and implement measures to prevent recurrence. But if, in the company's pursuit of efficiency, distortions have occurred in the process of optimization at each worksite, correcting these distortions is itself an instance of Integrity. I am convinced this is surely something that Kao can achieve.