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

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—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. As these issues become more diversified as we head toward 2030, we believe they will also become more complex. On the other hand, we also believe that under these conditions we can play an even greater role as a company that is a part of society.

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

Our current business environment remains unclear due to the spread of COVID-19, intensifying market competition and changes in market structure, and fluctuations in the raw material market as well as in exchange rates. Long-term effects of COVID-19 increase the possibility that a temporarily suspension at our group bases and supply chains could hinder our ability to provide products and services, and additionally, have transformed consumer awareness regarding the environment, health and hygiene, as well as consumer purchasing behavior accompanied by this awareness change. In addition, heightened geopolitical tension has been accompanied by fueling divisions among people. There have also been increasingly serious environmental problems, and the world today continues to experience great turmoil. It is vitally important to respond quickly and adequately to the risks associated with these kinds of changes in the business environment. The Risk and Crisis Management Committee and Management Board have defined the main 14 risks (see next page) of special importance that could occur negative impact on sustainable and profitable development, and on our contributions to sustainability of the world. Managing divisions have established countermeasure policies for these risks and are managing their progress.



Web

Corporate Risks and Main Initiatives

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

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Main risks

Main risk	Detail of risk
1. Risks related to the COVID-19 pandemic	<ul style="list-style-type: none"> • Temporary suspension of operations due to the spread, or long-term effects, of COVID-19 and the effect of highly infectious virus mutations, etc. • Risk of declining competitiveness from insufficient response to changes in consumers' awareness and values as well as changes in purchasing 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 changes and speed in the retailing environment including e-commerce growth and sourcing new channels, fusion of real distribution and online as well as mergers and integration across business formats • Risks of hindering appropriate response to changes in the logistics environment, including driver shortages and increases in costs due to logistics increase as well as work style law reforms that apply to the logistics industry
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 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 accidents or concerns emerging with regard to product safety or environmental issues • Risk of not being able to appropriately respond to changes to laws and regulations in each country, and demands for resolving safety or environmental problems and for transparency such as product ingredients and safety
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 business operations through voluntary acts such as cyberattacks
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 or stable procurement of raw materials • 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 implement the retention and cultivation 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

We define new risks that emerge due to changes in the business environment, or risks that we are already aware of and that may seriously affect management over a long-term period as emerging risks, and among other major risks, are focusing on the following. During our annual review of major risks, we also identify emerging risks with focus on the following risks.

Risks related to the COVID-19 pandemic

The spread of COVID-19 has had a major impact on social and economic activity as well as people's lives all over the world, and the business environment still remains unclear. The prolonged spread of infection leads to changes in consumer awareness, values and

purchasing behavior, and decline in competitiveness due to an insufficient response to them can be considered risks that may seriously affect management over time.

Risks related to response to social issues

The growing severity of environmental and human rights issues, as well as social issues, such as the aging of the population and issues relating to public health and hygiene, has led to heightened environmental and health awareness among consumers and growing demand from customers for sustainability. These social issues are expected to become more diverse and complex. Insufficient provision of appropriate products and services that embody our ESG Strategy (Kao Actions) in response

to changes in consumer awareness and customer needs regarding these issues, or having our initiatives perceived as inadequate, also poses risks that could seriously affect our management over the long term. For environmental issues, this applies in particular to products that reduce energy consumption during product use and reduce waste after use, and for social issues, to products that are easy to understand and use for large numbers of consumers as well as products that contribute to improved quality of life.



"Business Risks and Other Risks" section of our Financial Report 2021

www.kao.com/content/dam/sites/kao/www-kao-com/jp/ja/corporate/investor-relations/pdf/securities-fy2020-all-01.pdf#page=17 (Japanese)

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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 stakeholders, and providing products and services deemed necessary by society, we strive to make Kao a company with a global presence, valuable to society.

Kao's creating value

Currently, in line with the Kirei Lifestyle Plan (KLP), our 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, customers, business partners and other stakeholders.

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 our divisions and affiliates within and outside Japan 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.

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 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, etc., 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 understanding and awareness of risks and crises by providing alerts and e-learning on 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 affiliate to identify significant risks and to facilitate the revision of countermeasures where necessary. The results of the surveys are reported back to each division and affiliate to promote ongoing improvement in and strengthening of the risk management capabilities of the organization and its employees. For cross-organizational risks and common risks, we are working with each division in charge to strengthen our ability to address these, and if necessary, we respond to it as a corporate risk theme.

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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, 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 our outside directors) at least once a year by internal or external lecturers.

Especially in response to the spread and long-term effects of COVID-19, through our internal portal site and other means we communicated to employees 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, 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, 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.

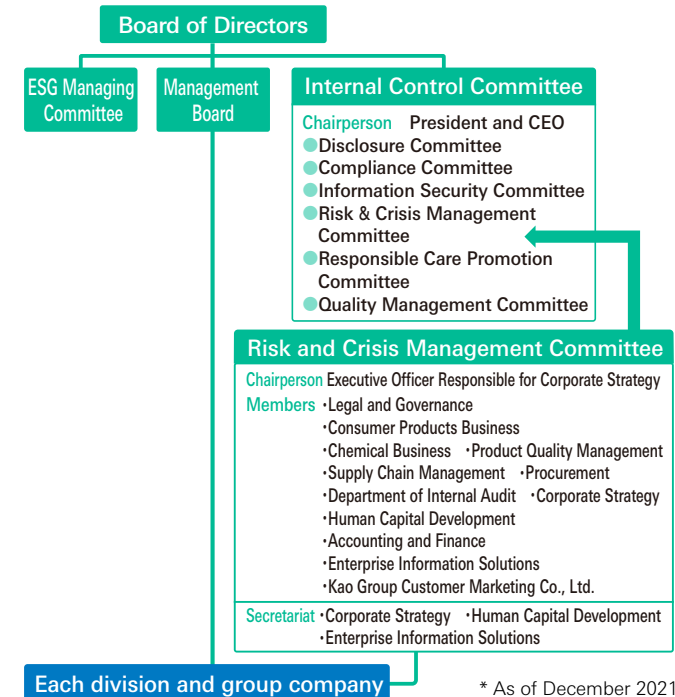
For instance, when it comes to maintaining product safety and good quality, stable supply, and fulfilling our responsibility toward social issues, working with suppliers and contractors is essential. Concerning stable procurement risks, we actively promote the facility expansion at our major suppliers 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 Supply Chain Program.

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.

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 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

Risk and crisis management system



* As of December 2021

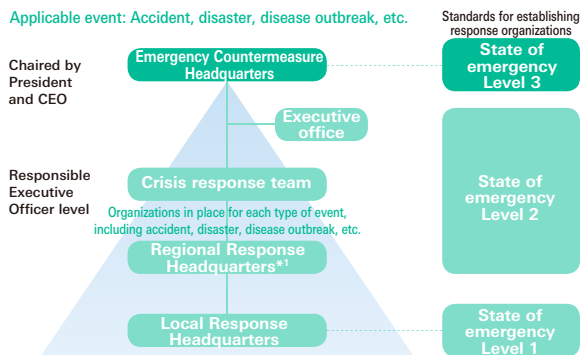
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Management Promotion Council, held once a month as a subordinate organization of the committee, which discusses proposals with the committee and promotes committee decisions.

The Risk and Crisis Management Committee and Management Board have defined the main 14 risks of special importance that could have a particularly negative impact on sustainable and profitable development, and on our contributions to sustainability of the world. Of these main risks, we designate risks that would have a particularly large impact on our

Management framework during times of 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.



*1 Regional Response Headquarters: Organization that gathers local information, collaborates with and supports local offices, and makes judgments on regional actions and provides instructions for such actions

State of emergency level

Level 1: Relevant divisions can respond on a local basis

Level 2: Impact on the operations of multiple divisions and locations

Level 3: Company-wide impact and impact on Kao's business

management and that we need to strengthen our response to as "corporate risks." With respect to corporate risks, once a year, the Management Board revises the risk themes and risk owners 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. Additional risk themes are added as necessary, in line with changes in the business environment.

Conversely, in the event of a crisis, in the case of corporate risks, those risk owners, or in the case of other risks, those divisions 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 or executive officer as its general manager to respond to the

impact to reduce physical damage and financial loss as much as possible. The Risk Management and Responsible Care, which operates independently of our 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 Management Board undertakes verification of risk and crisis management activities on a periodic basis (annually) and as needed, and this verification is approved by the Board of Directors. The Internal Control Committee monitors the status of risk and crisis management activities and verifies the effectiveness of the activities.

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

Risk management processes



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Mid- to long-term targets and performance

Mid- to long-term targets

By implementing the following basic strategies, we achieve risk and crisis management which support realizing What Kao Aims to Be by 2030: to make Kao a company with a global presence, valuable to society.

- Clarifying main risks and strengthening our counter response based on changes in internal and external environments
- Addressing strategic risks affecting the Kao Group Mid-term Plan 2025 (K25)
- Improving rapid and appropriate response when risks manifest

Important initiatives in 2021

- COVID-19 spread and long-term effects response
- Clarifying main risks, including corporate risks, and strengthening our counter response
- Visualizing for management purposes latent risks at business sites and in the business environment
- Identifying issues through risk research on risks that would hinder the K25
- Strengthening our practical ability to respond to significant risks at overseas bases
- Rapid and appropriate response when risks manifest
- 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 and profitable development.

Social impacts

Making contributions to social sustainability possible through business activities

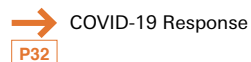
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Performance in 2021

Performance

COVID-19 spread and long-term effects response

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) to decide on response policies focusing on ensuring the safety of employees and their families and on the continuity of business activities.



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

- The Risk and Crisis Management Committee and the Management Board have selected the 14 main risks of particular significance as the risks that could have a negative impact on our sustainable and profitable development, and on our contributions to sustainability of the world. The details of these main risks and our main initiatives are disclosed in “Business Risks and Other Risks” in our 116th Financial Report.
- The Risk and Crisis Management Committee managed the progress of the eight corporate risk themes for FY2021.
- Based on internal and external risk analysis, the Management Board decided on the management system for eight corporate risk themes for 2022.

Corporate risks and main initiatives in 2021

Theme	Details of risks	Main initiatives
Pandemics	Risk including damage to employee health and temporary business suspensions occurring due to the long-term effects and infectious mutant variants of the global COVID-19 pandemic	<ul style="list-style-type: none"> ● We held a meeting of the Emergency Response Team Headquarters (headed by the President) to implement following response focusing on ensuring the safety of employees and their families and on the continuity of business activities. • As crisis management measures, followed national and local government policies, and additionally implemented work systems and styles compatible with the status of infection (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 • Established a workplace vaccination program for employees and their families • Strengthened infection control measures in countries and regions where infection has spread, as well as activities related to business continuity in collaboration with group companies • Reviewed group systems for new work styles to further promote of business digitalization, remote work, etc. ● Reviewing guidelines and action plans for the next pandemic based on experience with COVID-19
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 flood hazard maps and evacuation measures ● Strengthen our response through emergency response drills, means of communication and BCP drills to prepare for major earthquakes and other events
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 emergency contact system used during contingencies ● Strengthen the social media monitoring system ● Continuously strengthen internal education, and revise guidelines and the like regarding social media

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

- Regarding our 23 major divisions and 4 major subsidiaries within Japan, we conducted a risk survey regarding our ongoing themes from FY2020 of risk and response status regarding COVID-19 and risks that would hinder the K25. Regarding the former theme, the risk of business continuity due to the long-term effects of infection spread and issues such as the balance between real and remote work were mentioned, and related to the latter theme, risks related to new businesses, business continuity, ESG, etc. were brought up. Based on the results and analysis of external environments, we conducted informational interviews on areas management considered to be risks, and reviewed corporate risks.
- We conducted regular surveys of important risks at our locations overseas. We strengthened our response as a group to promptly and adequately respond to changes regarding our business, with each company reviewing important risk scenarios and risk and crisis management response systems, and additionally, for risks common to the global market, improving cooperation between our locations overseas and our Head Office.

- At the Risk and Crisis Management Committee, we managed progress of corporate risk initiatives by reporting on corporate risk theme initiatives and discussion.
- At the Risk and Crisis Management Promotion Council, we shared and discussed the risk management activities of nine divisions and four subsidiaries in Japan in order to promote improved coordination and strengthen our activities.

Strengthening measures against information disclosure

- We disclosed information about reviewing main risks and concrete initiatives in “Business Risks and Other Risks” in our Financial Report 2020.
- 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.

Main training / drills in 2021

- 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)

Reviews of performance

Regarding the COVID-19 spread and long-term effects, we were able to fulfill social responsibilities ensuring the safety of our employees and their families in each country and a continuous supply of hygiene-related products through the united response of our entire company. Moreover, in the future we will strengthen our response by approaching causes of the risk that would hinder the K25.