

Risk and Crisis Management

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.

Social issues

The growing severity of environmental issues including climate change, plastic waste, and the depletion of water resources, environmental and human rights issues relating to raw material procurement, and the aging of society and the increase in social issues such as sanitation have raised awareness of the environment and health among consumers, leading to a trend toward ethical consumption and growing customer demand for sustainability. In addition, the social environment has been changing dramatically, with repeated outbreaks of the COVID-19 pandemic, destabilization of political and social conditions, and strained diplomatic relations.

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 security, secure information management, safeguarding of human rights, respect for diversity, and timely and appropriate information sharing and disclosure. As these issues diversify, we believe they will also become more complex. We also believe that under these conditions we can play an even greater role as a company that is a part of society.

Policies

We regard potential negative effects on achievement of the management targets and business activities as a “risk,” and the manifestation of such risk as a “crisis.” We aim to properly manage the various risks and crises that could occur across our business in line with the

response priorities 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 damage and financial losses.

Strategy

Risks and opportunities

Risks

Our business environment remains unclear due to intensifying market competition and changes in market structure, as well as fluctuations in the raw-material market and exchange rates. Furthermore, although there are signs of the COVID-19 pandemic reaching a resolution, the emergence of highly infectious mutant viruses, etc., need to be monitored closely. In addition, rising geopolitical tensions have been accompanied by the fueling of divisions among people. There have also been increasingly serious environmental issues. It is therefore crucial to respond promptly and appropriately 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 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.

Risk and Crisis Management

Main risks

Main risk	Content
1. 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
2. Risks related to response to social issues	<ul style="list-style-type: none"> • Risk of products and services not being accepted by consumers and customers due to initiatives that are inadequate or perceived as inadequate to resolve social issues, such as climate change • Risk of being perceived as “greenwashing” * by not being able to adequately show progress on the ESG strategy, Kirei Lifestyle Plan * Greenwashing “Washing” is exaggerating or overstating the environmental and sustainability aspects of a company’s products or services, or making unsupported claims about the environmental or sustainability actions it takes.
3. Risks related to geopolitics	<ul style="list-style-type: none"> • Risk of deterioration in the business environment due to destabilization of political or social conditions, diplomatic tensions, conflicts or other reasons in countries or regions where we do business or procure raw materials • Risk of human casualties, temporary suspension of operations, and changes in consumer purchasing due to conflicts between countries or regions
4. Risks related to pandemics	<ul style="list-style-type: none"> • Temporary suspension of operations due to the emergence of a variant of COVID-19, or new viruses, etc. • Shrinkage of the cosmetics market due to changes in purchasing behavior brought about by voluntary restraint from going out, etc.
5. 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 owing to 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 a plant fire or explosion, etc.
6. Risks related to the quality of products, etc.	<ul style="list-style-type: none"> • Risk of serious product quality problems • Risk of new safety or environmental issues, or sudden changes in laws and regulations in each country or area
7. Risks related to information security	<ul style="list-style-type: none"> • Risk relating to trade secrets leakage or personal information disclosure, as well as temporary disruption of business operations through an error or intentional actions including cyberattacks
8. Risks related to reputation	<ul style="list-style-type: none"> • Risk of the spread of negative evaluations of inappropriate or careless expressions in information dissemination and marketing activities through social networking services, etc.
9. Risks related to changes in the retailing environment	<ul style="list-style-type: none"> • Risk of not being able to conduct appropriate sales activities in response to the diversification and complexity of its retail channels • Risk of failure to respond appropriately to changes in the retail environment, resulting in delivery delays and a significant increase in distribution costs
10. 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, sudden changes in laws, regulations and tax systems, an influx of counterfeit products, reputational risk, and others
11. Risks related to business investment	<ul style="list-style-type: none"> • Risk of being unable to generate the expected results, due to worse-than-planned performance, etc. in relation to capital investment and M&A, and others
12. Risks related to compliance	<ul style="list-style-type: none"> • Risk of serious compliance violations at Kao Group companies, contractors, etc.
13. Risks related to securing human capital	<ul style="list-style-type: none"> • Risk of being unable to implement systematically the retention and cultivation of human capital with high-level specialist skills, leaders able to guide change, etc.
14. Risks related to currency exchange rates 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
15. 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. During our annual review of major risks, we also identify emerging risks with a focus on the following ones.

Risks related to responses to social issues

We have identified Environmental Issues, Population Aging, Pandemics, and Challenges Associated with Diversification as social issues of focus, and are implementing the Mid-term Plan K25 as well as the ESG strategy, the Kirei Lifestyle Plan (KLP). Of these,

climate change is a key issue, and we recognize transition risks (introducing or increasing carbon taxes, introduction of plastic regulations, raw material price increases, biodiversity conservation) and physical risks (natural disasters). Furthermore, if our efforts to solve these social issues are inadequate or perceived as

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inadequate in relation to our targets, our products and services may not be accepted by consumers and customers, and we may not achieve our sales and market share targets as a result. Failure to adequately show progress toward the KPIs committed to in the KLP may lead to a fall in corporate value, such as being perceived as greenwashing. Lack of response to these issues is a risk that could significantly affect management over the long term.

Risks related to geopolitical risks

Geopolitical risks have significantly increased in Europe and East Asia, where the Kao Group operates, due to the Russia / Ukraine issue and other factors. Geopolitical risks may also increase in the countries and areas where we procure raw materials. If the business environment in these countries and areas deteriorates due to destabilization of political and social conditions, diplomatic tensions, conflicts or other reasons, and Kao Group corporate activities are affected by human casualties, temporary suspension of operations due to supply chain disruptions, or changes in consumer purchasing due to friction among countries or regions, we may not be able to achieve our sales and profit targets. Lack of response to these issues is a risk that could significantly affect management over the long term.



“Business Risks and Other Risks” section of our Financial Report 2022
<https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/investor-relations/pdf/financial-reports-fy2022e-01.pdf#page=6>

Opportunities

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 and valuable to society.

Strategy

Based on the order of priority of (1) Protection of human lives, (2) Environmental conservation, (3) Continuation of operations, (4) Protection of assets as stated in the “Kao Risk and Crisis Management Policy,” we will appropriately manage risks and crises of importance that may occur throughout our business by taking priority-based measures to deal with them.

Social impact

Risk and crisis management plays an important role in supporting sustainable profitable development and contribution to the sustainability of society. 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.

Business impact

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.

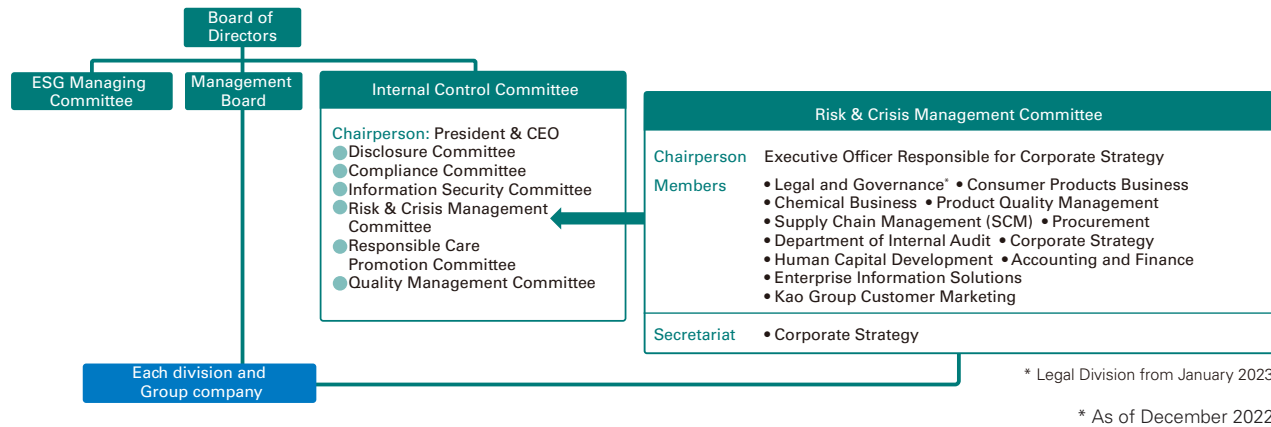
Governance

Framework

Risk and crisis management is managed by the Risk & Crisis Management Committee (which meets four times per year), one of the related committees under the Internal Control Committee (meeting twice a year), which establishes management systems and activity policies. Risk & Crisis Management Committee is headed by the Executive Officer Responsible for Corporate Strategy. 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 Management Promotion Council, held once a month as a subordinate organization of the committee, which discusses proposals with the committee and promotes committee decisions.

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Risk and crisis management system



The Risk and Crisis Management Committee and Management Board have defined the main 15 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 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 an analysis of internal risk surveys and the external environment, as well as interviews with executives, and the Risk & 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 Countermeasure Headquarters with the President & CEO as its general manager to respond to the impact to reduce physical damage and financial loss as much as possible. The Risk Management & 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 (once a year) and as needed, and this verification is approved by the Board of Directors. The Internal Control Committee monitors the status of the risk and crisis management activities and verifies the effectiveness of the activities.

The performance evaluation of the executive officer in charge of risk and crisis management and the Risk Management & Responsible Care will reflect the degree to which targets for the forementioned activities have been achieved. The performance evaluation of the executive officer in charge of main risks and corporate risks and the lead division will also reflect the degree to which the initiatives have achieved their targets.

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.

Applicable event: Accident, disaster, disease outbreak, etc.



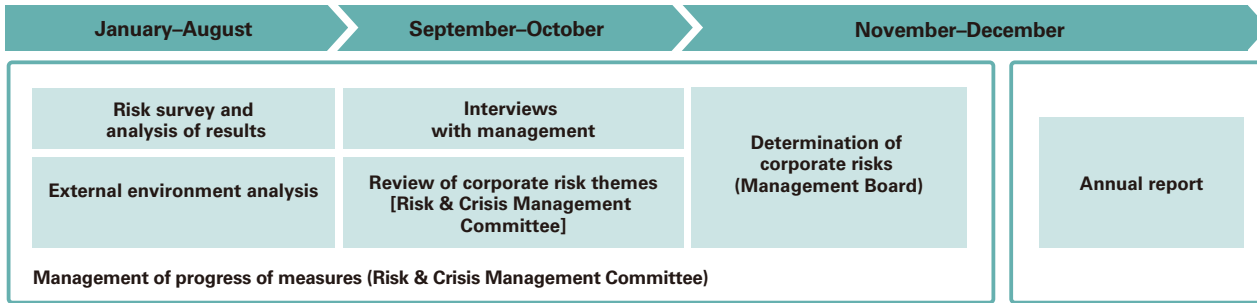
*1 Regional Response Headquarters: Organization that gathers local information, collaborates with and supports local offices, and makes judgments on regional actions and provides instructions for such actions

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

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Risk and crisis management activity process



Education and promotion

Spreading awareness of the risk management system and activity guidelines

The Risk & 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 including affiliated companies outside Japan understands basic policy and activity guidelines, 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 including 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 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, respond to them as corporate risk themes.

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 the COVID-19 pandemic, 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 measures against the COVID-19 pandemic. These included ways to strengthen infection countermeasures at workplaces and at home, the response if employees or their family members become infected or are in close contact with an infected person, and systems and precautions for when working from home.

Crisis response training

We conduct regular emergency response training, comprehensive prevention drills, safety confirmation drills, media training, risk communication training, etc.

Collaboration 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. In the event of crises such as large-scale earthquakes and typhoons, it is necessary to collaborate 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 ensure the continuous supply of needed products and services.

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Targets and metrics

Mid- to long-term targets and 2022 results

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 and responding to main risks based on changes in internal and external environment
- Responding to risks that may hinder the achievement of the Kao Group Mid-term Plan
- Prompt and appropriate response when risks manifest

2022 results

- Prompt and appropriate response when risks manifest
- Response to COVID-19 spread and long-term effects
- Identifying and responding to significant risks and issues through research on risks that would hinder the Kao Group Mid-term Plan 2025 (K25)
- Clarifying main risks, including corporate risks, and strengthening our response
- Strengthening the risk management activities of divisions and subsidiaries
- Major drills for state of emergency
- Strengthening measures against information disclosure, etc.

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

- The Risk & Crisis Management Committee and the Management Board have selected the 15 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 measures are disclosed in “Business Risks and Other Risks” in Kao Corporation Financial Report 2022.

- The Risk & Crisis Management Committee managed the progress of the eight corporate risk themes for FY2022.
- Based on internal and external risk analysis, the Management Board has decided on the management system for the eight corporate risk themes for 2023.

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Key themes and measures for corporate risk in 2022

Theme	Details of risks	Main measures
Pandemic response	Risk of health damage to employees and temporary suspension of operations due to the COVID-19 variants or new viruses	<ul style="list-style-type: none"> ● We held a meeting of the Emergency Countermeasure Headquarters (headed by the President & CEO) to implement following response focusing on ensuring the safety of employees and their families and on the continuity of business activities. <ul style="list-style-type: none"> ● Encouraged vaccinations for employees and their families ● Cooperated with the government and local governments and took other measures to continue production activities, especially for daily necessities, in countries and regions where the infections are spreading. ● Revised work systems and work styles (implemented hybrid work, eased restrictions on business trips outside Japan, etc.) in light of changes in virus characteristics and infection status, deregulation in each country, etc. ● Revising guidelines and action plans for the next pandemic based on response to the COVID-19 pandemic.
Large-scale earthquakes and other natural disasters and BCP response	Risk of harm to employees and damage to assets including facilities and difficulties in supplying products resulting from large-scale earthquakes and other natural disasters such as large typhoons and floods brought on by climate change	<ul style="list-style-type: none"> ● Enhancing hardware and software measures based on flood risk surveys at each site, and providing disaster prevention education to protect employees and their families ● Formulating BCP for long-term suspension of operations in Japan and strengthening BCPs at sites outside Japan
Response to serious product quality issues	Risk of serious product quality issues arising that would cause the loss of social credibility	<ul style="list-style-type: none"> ● Strengthen company-wide response in the event of serious damage arising due to product quality issues ● Strengthen internal awareness-raising to prevent serious quality issues from arising
Response to cyberattacks and personal information protection	Risk of leaks of confidential information or personal information due to an error or to intentional actions including cyberattacks. Risk of temporary suspension of business activities such as supply chain management activity	<ul style="list-style-type: none"> ● Strengthen security measures and clarify procedures for responding to incidents ● Strengthen global protection of trade secrets, personal information, and information security
Response to reputation risks	Risk that causes brand value and social credibility to decline due to the spread of negative evaluations about Kao on social media	<ul style="list-style-type: none"> ● Strengthen the emergency response system in the event of contingencies ● Strengthen the social media monitoring system ● Establish a pre-check system in advertising and social media messages and strengthen internal education

Reviews of 2022 results

Regarding the COVID-19 pandemic 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 Group. We also identified risks that could hinder the achievement of the Kao Group Mid-term Plan (K25) through a risk survey on risks that could hinder achievement of the Kao Group Mid-term Plan (K25), an ongoing theme since FY2021, and reflected them in our corporate risk review. We will

continue to strengthen our response by approaching the factors that cause risks.

Risk and Crisis Management

Main initiatives

Prompt and appropriate response when risks manifest

- Response to the Russia-Ukraine issue
Ensured employee safety and BCP compliance. Considering the reputational risk associated with the conflict between countries and areas, we have suspended product exports and advertising activities to Russia (continuing to export only products that can maintain a minimum of hygienic living conditions for women and infants).

Response to COVID-19 spread and long-term effects

We held a meeting of the Emergency Countermeasure Headquarters (headed by the President & CEO)* to implement following response focusing on ensuring the safety of employees and their families and on the continuity of business activities.

- Promoting vaccinations for employees and their families
- In countries and regions where the infection has spread, continue production activities, especially for daily necessities, in collaboration with the government and local governments, etc.
- Review of work systems and work styles in light of changes in virus characteristics and infection status, deregulation in each country, etc. (implementation of hybrid work systems, relaxation of business travel to outside Japan restrictions, etc.)

* The highest level of emergency, Level 3, established in February 2020

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

Regarding our 23 major divisions and 4 major subsidiaries within Japan, we conducted a risk survey regarding our ongoing themes from FY2021 of risks that would hinder the Kao Group Mid-term Plan K25. As a result, the significant risks identified included risks related to business and policies, including new businesses, risks related to business continuity, risks related to ESG, and geopolitical risks. Based on the results of this survey, analysis of the external environment, and interviews with senior management, we have added “geopolitical risk” as a main risk item and selected it as our corporate risk theme for 2023. We create risk scenarios for countries and areas that require special attention, develop response systems, and monitor political and social conditions. We will continue to strengthen our response with a focus on ensuring employee safety, securing supply chain networks such as raw material procurement, and reputational response.

Strengthen risk management activities of divisions and subsidiaries

- We have strengthened the practical ability of sites outside Japan to respond to risks by checking the status of management of selected critical risks and strengthening collaboration with the Kao head office as necessary.
- At the Risk and Crisis Management Promotion Council, we shared and discussed the risk management activities of eight divisions and four subsidiaries within and outside Japan in order to promote improved collaboration and strengthen our risk management activities.

Major drills for a state of emergency

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